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PRUDENTIAL

Prudential plc

英國保誠有限公司*

(Incorporated and registered in England and Wales under the number 01397169)

(Stock code: 2378)

**PRESS RELEASE AND ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

NEWS RELEASE

11 March 2020

PRUDENTIAL PLC FULL YEAR 2019 RESULTS



PRUDENTIAL DELIVERS RESILIENT BROAD-BASED GROWTH IN ASIA

Performance highlights on a constant (and actual) exchange rate basis

- Group adjusted operating profit¹ from continuing operations of \$5,310 million, up 20 per cent² (20 per cent³)
- Asia adjusted operating profit¹ up 14 per cent² (up 13 per cent³); Asia embedded value up 23 per cent³ to \$39.2 billion
- Double-digit growth² in new business profit⁴ in eight markets in Asia
- Preparations commenced for a minority IPO of Jackson
- LCSM shareholder surplus⁵ estimated at \$9.5 billion, equivalent to cover ratio of 309 per cent
- Second interim ordinary dividend of 25.97 cents per share

Mike Wells, Prudential plc's Group Chief Executive, said: "We have delivered another positive performance during 2019, despite significant macroeconomic and geopolitical volatility. Our clear strategy and strong execution have enabled us both to deliver profitable growth and to position ourselves for further growth into the future.

"In Asia, we are focused on growth opportunities. We are building the long-term value of our fast-growing franchise by deepening our strong relationships with existing customers and by acquiring new customer relationships. We are continuing to strengthen our agency and bank channels in Asia, and harnessing the opportunities of digital technology, including Pulse by Prudential, our new end-to-end digital health app. We see continuing opportunities for selective inorganic investment.

"Outside Hong Kong, we delivered a 17 per cent² increase in APE⁶ sales and a 29 per cent² rise in new business profit⁴. This includes China where APE⁶ sales were up by 53 per cent². Fewer visitors from mainland China caused a fall in total Hong Kong APE⁶ sales by 11 per cent² and a fall in new business profit⁴ of 12 per cent². Adjusted operating profit from Asia insurance operations was \$2,993 million, growing by 14 per cent² with Hong Kong up by 24 per cent² to \$734 million demonstrating the resilience of our business. Our Asia asset manager, Eastspring, performed well, with net external inflows of \$8.9 billion⁷ (2018: net outflows \$(2.1) billion⁷) contributing to average assets under management up 15 per cent³ and adjusted operating profit of \$283 million, up 18 per cent².

"In the US, the world's largest retirement savings market and the continuing transition of millions of Americans into retirement creates a substantial opportunity for Jackson's products. US APE⁶ sales increased by 8 per cent driven by fixed income and fixed index annuities, in line with our diversification strategy. New business profit⁴ declined by 28 per cent, reflecting lower interest rates and changes in product mix. US adjusted operating profit¹ increased by 20 per cent to \$3,070 million, reflecting the impact of lower market-related amortisation of deferred acquisition costs. Higher equity markets also led to US separate account assets increasing by 19 per cent³ to \$195.1 billion. Our US business continued its long term track record of delivering cash to the Group, remitting a dividend of \$525 million⁸ during the year.

"As previously stated, in order to diversify at pace, Jackson will need access to additional investment, which we believe would best be provided by third parties. We are today announcing that the Board has determined that the preferred route to achieve this is a minority Initial Public Offering (IPO) of Jackson. We have already taken a number of management actions to support this path. We will now begin detailed engagement with our key stakeholders, with a view to ensuring that Jackson will have the capital strength as a separately listed business to support its continued success as a broad provider of retirement solutions for America's aging population.

"We continue to monitor closely the development of the coronavirus outbreak and are focused on the health and well-being of our customers and staff. The outbreak has slowed economic activity and dampened our sales momentum in Hong Kong and China. Given these conditions, lower levels of new sales activity in affected markets are to be expected with a consequential effect on new business profit. Our in-force business is proving robust. The broad geographic spread of our business across the region and the strength of our recurring premium business model lends considerable resilience to our earnings.

"I am confident that, with our clear focus on our structural growth markets and our continuing operational improvements, we will continue to deliver profitable growth for our investors and benefits for our stakeholders over the medium and long term."

Summary financials	2019 \$m	2018 \$m	Change on AER basis	Change on CER basis
Adjusted operating profit from continuing operations ¹	5,310	4,409	20%	20%
Operating free surplus generated from continuing operations before US EEV modelling enhancements ^{9,10}	3,764	3,410	10%	10%
Life new business profit from continuing operations ⁴	4,405	4,707	(6)%	(6)%
IFRS profit after tax from continuing operations ¹¹	1,953	2,881	(32)%	(33)%
Net cash remittances from business units from continuing operations ^{8,12}	1,465	1,417	3%	-
LCSM shareholder surplus over Group minimum capital requirement ⁵	\$9.5bn	\$9.7bn	(2)%	-
31 December 2019	Total	Per share		
IFRS shareholders' funds ¹³	\$19.5bn	749¢		
EEV shareholders' funds ¹³	\$54.7bn	2,103¢		

Notes

- 1 In this press release 'adjusted operating profit' refers to adjusted IFRS operating profit based on longer-term investment returns from continuing operations. This alternative performance measure is reconciled to IFRS profit for the year in note B1.1 of the IFRS financial statements.
- 2 Year-on-year percentage increases are stated on a constant exchange rate basis unless otherwise stated.
- 3 Growth rate on an actual exchange rate basis.
- 4 New business profit, on a post-tax basis, on business sold in the year, calculated in accordance with EEV Principles.
- 5 Surplus over Group minimum capital requirement and estimated before allowing for second interim ordinary dividend. Shareholder business excludes the available capital and minimum requirement of participating business in Hong Kong, Singapore and Malaysia. 2018 surplus excludes M&G plc and includes \$3.7 billion of subordinated debt issued by Prudential plc that was transferred to M&G plc on 18 October 2019. Further information on the basis of calculation of the LCSM measure is contained in note I(j) of the Additional unaudited financial information.
- 6 APE sales is a measure of new business activity that comprises the aggregate of annualised regular premiums and one-tenth of single premiums on new business written during the year for all insurance products, including premiums for contracts designated as investment contracts under IFRS 4. It is not representative of premium income recorded in the IFRS financial statements. See note II of the Additional unaudited financial information for further explanation.
- 7 Excludes Money Market Funds.
- 8 During 2019, the Group's holding company cash flow was managed in sterling and significant remittances were hedged and recorded on that basis. Amounts received were therefore distorted by the on-wards translation into US dollars. The dividend paid by Jackson in the US in US dollars in 2019 was \$525 million (2018: \$450 million). The amount recorded as received in the holding company cash flow was \$509 million (2018: \$452 million).
- 9 For insurance operations, operating free surplus generated represents amounts maturing from the in-force business during the year less investment in new business and excludes non-operating items. For asset management businesses, it equates to post-tax operating profit for the year. Further information is set out in note 11 of the EEV basis results.
- 10 During 2019, as part of the implementation of the NAIC's changes to the US statutory reserve and capital framework enhancements were made to the model used to allow for hedging within US statutory reporting which have been incorporated into the EEV model. This resulted in a fall in operating free surplus of \$(903) million from a lower expected transfer to net worth. After allowing for this, operating free surplus generated is \$2,861 million, down 16 per cent on both a constant and actual exchange rate basis.
- 11 IFRS profit after tax from continuing operations reflects the combined effects of operating results determined on the basis of longer-term investment returns, together with short-term investment variances which for 2019 were driven by non-operating losses in Jackson, corporate transactions, amortisation of acquisition accounting adjustments and the total tax charge for the year.
- 12 Net cash remitted by business units are included in the holding company cash flow, which is disclosed in detail in note I(iii) of the Additional unaudited financial information. This comprises dividends and other transfers from business units that are reflective of emerging earnings and capital generation.
- 13 IFRS and EEV Shareholders' funds at 31 December 2019 are not directly comparable to group shareholders' funds reported at 31 December 2018, as the prior year balance included shareholders' funds of M&G plc which, following demerger, are not part of the Group at 31 December 2019. The reported 31 December 2018 IFRS shareholders' funds per share were 847¢ and EEV shareholders' funds per share were \$2,445¢.

Contact:

Media

Jonathan Oliver +44 (0)20 3977 9500
Tom Willetts +44 (0)20 3977 9760

Investors/Analysts

Patrick Bowes +44 (0)20 3977 9702
William Elderkin +44 (0)20 3977 9215

Notes to Editors:

- a. The results in this announcement are prepared on two bases: International Financial Reporting Standards (IFRS) and European Embedded Value (EEV). The results prepared under IFRS form the basis of the Group's statutory financial statements. The supplementary EEV basis results have been prepared in accordance with the amended European Embedded Value Principles issued by the European Insurance CFO Forum in 2016. The Group's EEV basis results are stated on a post-tax basis and include the post-tax IFRS basis results of the Group's asset management and other operations. The IFRS and EEV results are presented in US dollars, reflecting the change in the Group's presentational currency, and comparative amounts are restated accordingly. The basis of translation is discussed in note A1 of the IFRS financial statements. Period-on-period percentage increases are stated on a constant exchange rate basis unless otherwise stated. Constant exchange rates are calculated by translating prior period results using the current period foreign exchange rate ie current period average rates for the income statement and current period closing rates for the balance sheet.
- b. EEV and adjusted IFRS operating profit based on longer-term investment returns are stated after excluding the effect of short-term fluctuations in investment returns against long-term assumptions, which for IFRS in 2019 were driven by the negative effects in the US, and gains/losses arising on the disposal of businesses and other corporate transactions including costs associated with the demerger of M&G plc. Furthermore, for EEV basis results, operating profit based on longer-term investment returns excludes the effect of changes in economic assumptions and the mark-to-market value movement on core borrowings. Separately on the IFRS basis, adjusted operating profit also excludes amortisation of accounting adjustments arising principally on the acquisition of REALIC completed in 2012. The amounts shown are for continuing operations only (being Asia, US and central operations including Africa but excluding M&G plc) unless otherwise stated.
- c. Total number of Prudential plc shares in issue as at 31 December 2019 was 2,601,159,949.
- d. A presentation for analysts and investors will be held today at 11.30am (UK time) / 7.30pm (Hong Kong time) in the Conference Centre of Nomura, 1 Angel Lane, London EC4R 3AB. The presentation will be webcast live and available to replay afterwards using the following link <https://www.investis-live.com/prudential/5e26d0d852202e0d004a4961/wsse>

To register attendance in person please send an email to investor.relations@prudentialplc.com

Alternatively, a dial-in facility will be available to listen to the presentation: please allow time ahead of the presentation to join the call (lines open half an hour before the presentation is due to start, ie from 11.00am (UK time) / 7.00pm (Hong Kong time).

Dial-in: 020 3936 2999 (UK Local Call) / +44 20 3936 2999 (International) / 0800 640 6441 (Freephone UK), Participant access code: 776388. Once participants have entered this code their name and company details will be taken.

Playback: +44 (0) 20 3936 3001 (UK and international excluding US) / + 1 845 709 8569 (US only) (Replay code: 542585). This will be available from approximately 3.00pm (UK time) / 11.00pm (Hong Kong time) on 11 March 2020 until 11.59pm (UK time) on 25 March 2020 / 7.59am (Hong Kong time) on 26 March 2020.

e. 2019 Second Interim Ordinary Dividend

Ex-dividend date	26 March 2020 (UK, Hong Kong and Singapore)
Record date	27 March 2020
Payment of dividend	15 May 2020 (UK, Hong Kong and ADR holders) On or about 22 May 2020 (Singapore)

f. About Prudential plc

Prudential plc is an Asia-led portfolio of businesses focused on structural growth markets. The business helps individuals to de-risk their lives and deal with their biggest financial concerns through life and health insurance, and retirement and asset management solutions. Prudential plc has 20 million customers and is listed on stock exchanges in London, Hong Kong, Singapore and New York. Prudential plc is not affiliated in any manner with Prudential Financial, Inc. a company whose principal place of business is in the United States of America, nor with the Prudential Assurance Company, a subsidiary of M&G plc, a company incorporated in the United Kingdom.

g. Discontinued Operations

Throughout this results announcement 'discontinued operations' refers to the recently demerged UK and Europe operations (referred to as M&G plc). All amounts presented refer to continuing operations unless otherwise stated.

h. Forward-Looking Statements

This document may contain 'forward-looking statements' with respect to certain of Prudential's plans and its goals and expectations relating to its future financial condition, performance, results, strategy and objectives. Statements that are not historical facts, including statements about Prudential's beliefs and expectations and including, without limitation, statements containing the words 'may', 'will', 'should', 'continue', 'aims', 'estimates', 'projects', 'believes', 'intends', 'expects', 'plans', 'seeks' and 'anticipates', and words of similar meaning, are forward-looking statements. These statements are based on plans, estimates and projections as at the time they are made, and therefore undue reliance should not be placed on them. By their nature, all forward-looking statements involve risk and uncertainty.

A number of important factors could cause Prudential's actual future financial condition or performance or other indicated results to differ materially from those indicated in any forward-looking statement. Such factors include, but are not limited to, future market conditions, including fluctuations in interest rates and exchange rates, the continuance of a sustained low-interest rate environment, and the impact of economic uncertainty, asset valuation impacts from the transition to a lower carbon economy, inflation and deflation and the performance of financial markets generally; global political uncertainties; the policies and actions of regulatory authorities, including, in particular, the policies and actions of the Hong Kong Insurance Authority, as Prudential's new Group-wide supervisor, as well as new government initiatives generally; the impact of continuing application of Global Systemically Important Insurer or 'G-SII' policy measures on Prudential; the impact on Prudential of systemic risk policy measures adopted by the International Association of Insurance Supervisors; the impact of competition and fast-paced technological change; the effect on Prudential's business and results from, in particular, mortality and morbidity trends, lapse rates and policy renewal rates; the physical impacts of climate change and global health crises on Prudential's business and operations; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; the impact of internal transformation projects and other strategic actions failing to meet their objectives; the risk that Prudential's operational resilience (or that of its suppliers and partners) may prove to be inadequate, including in relation to operational disruption due to external events; disruption to the availability, confidentiality or integrity of Prudential's IT, digital systems and data (or those of its suppliers and partners); any ongoing impact on Prudential of the demerger of M&G plc; the impact of changes in capital, solvency standards, accounting standards or relevant regulatory frameworks, and tax and other legislation and regulations in the jurisdictions in which Prudential and its affiliates operate; the impact of legal and regulatory actions, investigations and disputes; and the impact of not adequately responding to environmental, social and governance issues. These and other important factors may, for example, result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. Further discussion of these and other important factors that could cause Prudential's actual future financial condition or performance or other indicated results to differ, possibly materially, from those anticipated in Prudential's forward-looking statements can be found under the 'Risk Factors' heading of this document.

Any forward-looking statements contained in this document speak only as of the date on which they are made. Prudential expressly disclaims any obligation to update any of the forward-looking statements contained in this document or any other forward-looking statements it may make, whether as a result of future events, new information or otherwise except as required pursuant to the UK Prospectus Rules, the UK Listing Rules, the UK Disclosure and Transparency Rules, the Hong Kong Listing Rules, the SGX-ST listing rules or other applicable laws and regulations.

Group Chief Executive's report

We have delivered a positive operating performance during 2019, led by continued growth in our Asian business. Our clear strategy and focused execution, combined with improvements in our operations, have enabled us both to deliver profitable growth and to position ourselves for continued growth into the future.

We exist to take the financial risk out of the biggest events in the lives of our customers, enabling them to face the future with confidence. In addition to fulfilling our traditional role of providing life and health protection, savings opportunities to meet family goals and retirement income, we aspire to lead in new areas aligned with this purpose. During 2019, collectively our continuing businesses agreed to pay over \$29 billion to our customers in claims and savings pay-outs. Our products help consumers postpone and prevent ill-health through digital innovation, increase access to finance, and provide solutions for an ageing world. At the same time, we are investing our customers' savings in the real economy, helping to drive sustainable growth.

Our business is built around long-term structural opportunities. In our fast-growing markets in Asia there is a strong and growing need for health and protection, for savings opportunities and for ways to invest, and there is a significant gap for products that meet those needs. By meeting important financial needs, we expect to build long-term relationships with our customers. This translates into recurring income streams and low lapse rates, which in turn produce high-quality earnings.

We are well positioned to meet structural opportunities. We are diversified by geography, with operations in 15 markets in the region, through our products offering health and protection, savings and asset management, and in our mix of channels, providing our products through our large agency force and our network of partnerships with banks across the region. We are also innovating at pace and scale to digitalise the customer journey end-to-end, and delivering new value-added solutions, such as Pulse by Prudential, our new digital health app.

In the US, where the continuing transition of millions of Americans into retirement creates a substantial opportunity for Jackson's products, we have delivered organic diversification and Jackson has paid a dividend of \$525 million¹.

During 2019, we successfully completed the demerger of M&G plc from the Group, enabling us to focus on structural growth markets. We are working collaboratively with our new Group-wide regulator, the Hong Kong Insurance Authority, and our other supervisors across our markets.

The US is the world's largest retirement market with trillions of dollars expected to move from savings into retirement income products over the next decade. As a top-two annuity provider, Jackson is a leader in meeting the needs of Americans who aspire to a secure retirement with a guaranteed income.

Jackson's ambition is to play the fullest role possible through a strategy of diversifying both its product range and distribution network. Over time, this is expected to lead to a more balanced mix of policyholder liabilities and enhance statutory capital and cash generation.

As we stated at our half-year results, in order to diversify at pace, Jackson will need access to additional investment which we believe would best be provided by third parties. Since then, we have undertaken significant work with our advisers to assess options for introducing third party finance into Jackson. The Board has determined that the preferred route to achieve this is to seek a listing of Jackson in the US in due course, subject to market conditions.

Accordingly, we are today announcing that preparations have commenced for a minority initial public offering (IPO) of Jackson and have already taken a number of management actions to support this path. We will now commence detailed engagement with key stakeholders, with a view to ensuring that Jackson will have the capital strength as a separately listed business to support its continued success as a broad provider of retirement solutions for America's aging population. We will provide an update at our HY20 results scheduled for 11 August 2020.

Macroeconomic environment

The core demand for our long-term savings and protection products has remained strong despite uncertain conditions in the macroeconomic environment. A combination of low interest rates, trade disputes and volatile international politics has created difficult conditions across many sectors. The US government 10-year bond yield fell to 1.9 per cent at the end of 2019 (2018: 2.7 per cent). Equity markets finished 2019 higher than the start of the year, especially in the US, where the S&P500 index was up 28.9 per cent, and valuations in the credit markets were also elevated well above historic norms. We continue to manage our business conservatively for the long term, with a cautious allocation of shareholder funds and extensive hedge programmes in Jackson. These hedge programmes manage the economic risk, with consideration of the local regulatory position, of the guarantees contained within the products sold to customers.

Financial performance

The adjusted IFRS operating profit based on longer-term investment returns (adjusted operating profit²) for 2019 from our continuing operations increased by 20 per cent on both a constant and actual exchange rate basis, reflecting the continued growth and resilience of our Asian businesses and the beneficial impact of strong 2019 capital returns on deferred acquisition cost amortisation in the US. The IFRS profit after tax from continuing operations was \$1,953 million in 2019 (2018: \$2,881 million on an actual exchange rate basis). This is after a \$(380) million post-tax loss in Jackson, where accounting volatility continues to be expected given the economic nature of our hedging programme and the related accounting mismatches that exist.

Alongside our financial performance we have made significant investments, funded regionally and centrally. During 2019, this included the renewal of our regional strategic bancassurance alliance with United Overseas Bank Limited for an initial fee of \$853 million, (\$301 million of which was paid in 2019), entering into an exclusive bancassurance partnership with SeABank, our

acquisition of 50.1 per cent of Thanachart Fund Management Co., Ltd for \$142 million³ and a total investment of \$619 million of free surplus in writing profitable new business in Asia, along with an investment of \$539 million in free surplus in US new business.

Asia

Our Asian operations continued to drive our performance. The fast-growing markets of Asia offer long-term structural opportunities for us, with the region's growing population having a clear and increasing need for the products we deliver. Insurance penetration in Asia is only 2.7 per cent of GDP, compared with 7.5 per cent in the UK⁴, while mutual fund penetration is just 12 per cent in Asia, compared with 96 per cent in the US⁵.

We have demonstrated the strength of our portfolio of businesses in the region by delivering double-digit growth in APE⁶ sales in six markets and in new business profit⁷ in eight, reinforcing the value of our diverse portfolio and demonstrating the breadth of earnings streams and new business spread in Asia.

Outside Hong Kong, we delivered a 17 per cent⁸ increase in APE⁶ sales and a 29 per cent⁸ rise in new business profit⁷. Within Hong Kong, our domestic business was resilient despite the effect of social unrest, with APE⁶ sales growing by 8 per cent⁸. Our domestic Hong Kong business has continued to expand and invest, driven by new health, protection and retirement solutions and supported by focused sales initiatives. Fewer visitors from mainland China caused a fall in total Hong Kong APE⁶ sales by 11 per cent⁸ and a fall in new business profit⁷ of 12 per cent⁸.

We have continued to accelerate our joint venture business in China, where APE⁶ sales over the year were 53 per cent⁸ higher, driving new business profit⁷ growth of 38 per cent⁸. We recently established a new branch in Shaanxi, our 20th in the country, and added seven cities and 14 sales and servicing offices. We are developing rapidly in a number of our other markets in the region, including Vietnam and the Philippines, where APE⁶ sales grew by 12 per cent⁸ and 34 per cent⁸ respectively and we are making good progress in Indonesia, where our sales grew by 23 per cent⁸ in the year including 41 per cent⁸ in the second half. Overall our Asia life businesses delivered 4 per cent⁸ growth in overall APE⁶ sales and a 2 per cent⁸ growth in overall new business profit⁷.

The benefits of our long held focus on writing high quality, recurring premium business, contributing to resilient and broad-based in-force growth are evident in the 12 per cent⁸ increase in renewal insurance premium⁹ and 14 per cent⁸ increase in adjusted operating profit², with double-digit growth⁸ in eight insurance markets including 24 per cent adjusted operating profit growth in Hong Kong and 20 per cent⁸ growth in mainland China.

At the same time, our Asian asset manager, Eastspring, has continued to grow well. Average assets under management were up by 15 per cent (on an actual exchange rate basis), while earnings were up by 18 per cent⁸ and net external inflows totalled \$8.9 billion¹⁰. Eastspring is continuing to expand its footprint in the region, and in December acquired a controlling stake in one of Thailand's leading asset managers, Thanachart Fund Management Co., Ltd, with the option to acquire the remaining equity in this business in due course.

We have broad and efficient channels in Asia, through both our agency force and our bank partners. During 2019, we continued to strengthen our network of bank partnerships, renewing and expanding our successful strategic alliance with United Overseas Bank in five markets across the region and signing two new partnership agreements in Vietnam.

We are continuing to deliver digital innovation to support our successful agency and bank channels. We are diversifying into new areas, including employee benefits insurance for both large and small employers in the region, and at the same time we are building new value-added services such as Pulse by Prudential, our new end-to-end digital health app.

Africa

We are continuing to make good progress in our newer markets in Africa. In 2019 we enhanced our growing scale in the region by acquiring a majority stake in a leading life insurer operating in Cameroon, Côte d'Ivoire and Togo, which have a combined population of more than 65 million. We now operate in eight markets in Africa with a total population of almost 400 million. In 2019, the Africa business delivered a 76 per cent⁸ increase in APE⁶ sales to \$82 million (2018: \$47 million).

US

In the US, our product innovation and distribution leave us well positioned to provide an ageing population with financial strategies for stable retirements. The US is the world's largest retirement savings market¹¹, with approximately four million Americans reaching retirement age every year¹². This transition continues to trigger the unprecedented shift of trillions of dollars from savings accumulation to retirement income generation¹³.

We provide products that offer Americans the retirement strategies they need, including variable, fixed and fixed index annuities. Our diversified product approach has enabled us to deliver APE⁶ sales up 8 per cent, with increases in both fixed index and fixed annuity products. New business profit⁷ declined by 28 per cent, reflecting lower interest rates and changes in product mix.

In the US, we have one of the leading distribution teams¹⁴. We are agile and successful in launching well designed, customer-centric products, have successful risk management and hedge programmes, are investing in technology platforms and have award-winning customer service. We are continuing to work towards further diversification and growth, within a highly competitive industry.

Our US business has taken important steps in the delivery of its diversification strategy, announced with our half year results in August 2019, and has maintained a cautious approach to managing risk through its dynamic hedging programme. The financial results of the US business reflect the execution of this strategy. While adjusted operating profit² increased by 20 per cent to \$3,070 million, the effects of strong US equity market performance and lower interest rates in the period led to a post-tax IFRS loss in the US of \$(380) million. We continue to accept a degree of volatility in our IFRS results since our hedging programme is based on

managing the economic risks in the business and protecting statutory solvency in the circumstances of large market movements. Further detail is provided in the Group Chief Financial Officer and Chief Operating Officer's report.

Outlook

We continue to monitor closely the development of the coronavirus outbreak. Our priority is the health and wellbeing for our customers and staff during this challenging time.

While the coronavirus outbreak has slowed down economic activity in the year to date and dampened our sales momentum in Hong Kong and China, we remain confident in the medium to long-term prospects of these economies and their respective insurance sectors. Our broad geographic spread across the region and the strength of our recurring premium business model lends considerable resilience to our earnings.

Given the impact of the coronavirus outbreak on travel and activity in the markets in which we operate, lower levels of new sales activity in those affected markets are to be expected. Our book of existing business is proving resilient and we are taking measures to manage the effect of lower activity while maintaining our investment in products, distribution and technology. Existing customers in both Hong Kong and mainland China continue to contribute to their policies, with premiums being paid through a broad range of remote payment facilities.

The longer-term structural drivers of growth in our Asia markets remain unchanged and compelling. The resilient and high quality nature of the IFRS operating earnings growth of our Asia business remains supported by the compounding nature of a highly enduring regular-premium income base and focus on health and protection products. These drivers, combined with the diversity of the Asia platform and quality of its execution, are expected to outweigh the effects of any one period's new sales.

In the US, we have commenced preparations for a minority IPO of Jackson as our preferred route to introduce third party finance into Jackson. As previously announced, from 2020 Jackson's remittances are expected to be more evenly spread over the calendar year than in prior periods.

The Group's strategy remains focused on structural growth opportunities. The Group will prioritise the considerable attractive investment opportunities available when considering the deployment of capital and applying its progressive dividend policy.

Interest rates have declined materially in 2019 and are trending lower in 2020. Equity markets have been volatile and have declined in the current year to date from their peaks in Q4 2019. These market conditions, as well as the coronavirus outbreak, create headwinds in respect of near-term new business profit and IFRS fee-based and spread earnings. However, our performance in 2019 demonstrates that the opportunities we have identified are clear and long term and that we are addressing these opportunities well. We are continuing to deliver growth based on the strength of those opportunities, the diversification of our business and the resilience of our earnings. I am confident that, with our clear focus on our structural growth markets and our continuing operational improvements, we will continue to deliver profitable growth for our investors and benefits for our stakeholders over the medium and long term.

Notes

- 1 During 2019, the Group's holding company cash flow was managed in sterling and significant remittances were hedged and recorded on that basis. Amounts received were therefore distorted by the on-wards translation into US dollars. The dividend paid by Jackson in the US in US dollars in 2019 was \$525 million (2018: \$450 million). The amount recorded as received in the holding company cash flow was \$509 million (2018: \$452 million).
- 2 Adjusted IFRS operating profit based on longer-term investment returns is management's primary measure of profitability and provides an underlying operating result based on longer-term investment returns and excludes non-operating items. Further information on its definition and reconciliation to profit for the year is set out in note B1.1 of the IFRS financial statements.
- 3 Cash payments made over 2019 and 2020.
- 4 Source: Swiss Re Sigma 2017. Insurance penetration calculated as premiums on per cent of GDP. Asia penetration calculated on a weighted population basis.
- 5 Source: Investment Company Institute, industry association and Lipper.
- 6 APE sales is a measure of new business activity that comprises the aggregate of annualised regular premiums and one-tenth of single premiums on new business written down during the year for all insurance products, including premiums for contracts designated as investment contracts under IFRS 4. It is not representative of premium income recorded in the IFRS financial statements. See note II of the Additional unaudited financial information for further explanation.
- 7 New business profit on a post-tax basis, on business sold in the period, calculated in accordance with EEV principles.
- 8 Year-on-year percentage increases are stated on a constant exchange rate basis unless otherwise stated. As in previous years, we comment on our performance in local currency terms (expressed on a constant exchange rate basis) to show the underlying business trends in periods of currency movement.
- 9 See note II of the Additional unaudited financial information for definition and reconciliation to IFRS balances.
- 10 Excludes Money Market Funds.
- 11 Source: Willis Towers Watson Global Pension Asset Study 2019.
- 12 Annual Estimates of the Resident Population by Single Year of Age and Sex for the United States: 1 April 2010 to 1 July 2018. Source: US Census Bureau, Population Division.
- 13 2016 Federal Reserve Board's Triennial Survey of Consumer Finances.
- 14 Source: Independent research and Market Metrics, a Strategic Insight Business: U.S. Advisor Metrics 2019, as of 30 September 2019.

Our businesses

Asia

Continued progress towards our strategic priorities.

2019 performance highlights

- Continued strong performance in key earnings and value metrics: adjusted operating profit up 14 per cent¹ and European Embedded Value up 23 per cent² to \$39,235 million
- We expanded our presence in China with a new branch in Shaanxi, the addition of seven cities and a strong start to our wholly owned private fund manager
- We renewed our successful regional strategic bancassurance alliance with United Overseas Bank Limited (UOB) to 2034 and expanded its coverage
- We secured one of a few 100 per cent licences in Myanmar, our 13th life market in Asia
- Eastspring total funds under management grew to \$241 billion, up 25 per cent²
- We developed over 160 products in 2019, contributing 16 per cent of life new business profit
- Our digital health SuperApp, branded Pulse by Prudential, is live in eight markets and over one million people have downloaded the app.

Our business

Our business model is underpinned by the breadth and quality of our operations in the life insurance and asset management sectors. We have an outstanding reputation with customers and regulators alike and we operate in markets with compelling structural drivers that support sustained future growth. We have a top-three position in nine insurance markets in the region and have built an Asian asset management business with one of the largest regional market footprints. This diversity, combined with our continued focus on customer outcomes and profitability, has provided protection from cyclical headwinds.

We have made significant investments during 2019 to strengthen further and grow our Asia business. We renewed our successful regional bancassurance partnership with UOB until the end of 2034 and expanded its coverage to include Vietnam as well as UOB's digital bank, TMRW. We extended our life insurance footprint to Myanmar, our 13th life market, and acquired a controlling stake in Thanachart Fund which makes us the fourth largest mutual fund manager in the attractive Thailand market with a 12 per cent market share. To date, over one million people have downloaded the 'Pulse by Prudential' app since its launch. Our focus on growing our presence in China saw our reach expand to a further seven cities, bringing our footprint to 94 cities, while our wholly owned private fund manager established in Shanghai in December 2018 has secured over one billion Yuan in its first year of operation.

We are able to translate these hallmarks of our business into financial success, with diversified growth in 2019 maintaining our strong track record of high-quality performance. We achieved a 14 per cent¹ increase in adjusted operating profit, with eight markets growing at a double-digit rate. This is supported by a 12 per cent¹ expansion in renewal premiums³, which reflects the long-term nature of our insurance business, and a 25 per cent² increase in funds under management at Eastspring helped by strong third-party net inflows of \$8.9 billion⁴. We also delivered 29 per cent¹ growth in new business profit outside Hong Kong, with eight markets expanding at a double-digit rate, which underpinned a 23 per cent² increase in European Embedded Value to \$39,235 million.

Market opportunities

We seek to enhance the health and wealth of consumers in Asia by providing life insurance and asset management solutions to address their protection and savings needs at all ages. The industry remains in the early stages of development, as characterised by the low penetration rates across the region for both insurance and asset management, and low levels of financial inclusion. In particular, most of our markets are approaching the level of per capita annual income when demand increases sharply. As a consequence, Asia is predicted to contribute about two-thirds of the global life insurance growth in the next 10 years⁵ and achieve a share of 42 per cent of the global insurance market by 2029 compared with just 32 per cent currently⁶. The Asia Pacific asset and wealth management industry is also expected to add about \$13 trillion of assets under management between 2020 and 2025⁷.

There are many structural drivers supporting the significant growth potential in Asia. The health protection gap, estimated at \$1.8 trillion⁸, is already substantial as consumers in Asia are under-insured and social safety nets remain limited. Meanwhile, medium-term economic growth prospects are superior to those of developed markets in the west, with continued income growth and rising wealth levels expected to raise the awareness of, and demand for, protection and wealth management solutions. Similarly, demographic trends are also favourable, as youthful emerging markets with growing working-age populations remain a core source of demand for traditional protection and savings products, and more mature markets with ageing populations create demand for retirement and wealth management solutions.

While these secular trends offer attractive prospects, we remain vigilant and focused in our execution. We have carefully managed our businesses through a range of unforeseen external events during 2019, including heightened capital market volatility arising from trade tensions between the US and China, a slowdown in the growth of the Chinese economy, suppressed yields on US dollar and other Asian currency fixed-income instruments, and social unrest in Hong Kong that led to a notable decline in mainland China visitor arrivals.

We have also embraced the opportunities brought about by government initiatives. Our widening product offerings and new partnerships support many Asian regulators' vision to provide greater financial inclusion and promote the health and wellbeing of the people. For example, in Hong Kong we have seen strong demand for our annuity and medical reimbursement products that are eligible for tax incentives that were newly introduced by the government. We also successfully refreshed products of our Malaysia conventional business to comply with the new regulations on minimum allocation rate. In addition, our expertise in economic capital reporting, protection-focused business mix and conservative balance sheet position us well for the migration to risk-based solvency frameworks across the region.

Strategic priorities

We run our business with a focus on customers, quality growth and profitability. We favour health and protection products due to their resilience to market cycles and healthy margins. Collectively, such products produced 67 per cent of our new business profit in 2019 and contributed to our high mix of regular premiums, which comprised 93 per cent of our APE sales in 2019 and 99 per cent of our life weighted premium income⁹. This results in 86 per cent¹⁰ of our life IFRS operating income (excluding other income) arising from insurance margin and fee income, which in turn supports stable profit progression across market cycles and strong returns on equity.

This performance also reflects the disciplined execution of our four strategic priorities, which align with the evolving sources of demand across the region and help position our business for continued growth.

First, we seek to enhance the core of our existing business and made excellent progress in this regard in 2019. Significantly, our sales in Indonesia grew 23 per cent¹ in the full year and this growth accelerated to 41 per cent¹ in the second half from 4 per cent¹ in the first half, following a substantial reform of our agency channel and new product launches. We made successful business mix improvements in the Philippines by shifting towards higher-margin health and protection products, which resulted in a 5 percentage point increase in APE sales mix¹¹ for these products and supported the more than doubling of new business profit. On the distribution side, we have extended our exclusive partnership with UOB until the end of 2034 with an expanded scope to include Vietnam and UOB's digital bank, TMRW, and have established an exclusive 20-year partnership with SeAbank who have 1.2 million retail customers and almost 170 branches in Vietnam.

Secondly, we aim to create 'best-in-class' health capabilities. This is being delivered by enhancing customer access to healthcare products and services. Through our digital health SuperApp branded Pulse by Prudential, which is live in 8 markets, we collaborate with various digital partners and use artificial intelligence technology to offer users a wide range of affordable and easy-to-access consumer services such as health assessments, risk factor identification, triage, telemedicine, wellness and digital payment. Meanwhile, we have launched new protection products to meet the evolving needs of our customers, including two certified VHIS plans in Hong Kong and PRUCritical Benefit 88, our first standalone critical illness product in Indonesia. In 2019, we increased our new business profit from health and protection products by 23 per cent in Asia ex-Hong Kong, as we expanded our APE sales of such products in seven markets with notable success in India, where such sales saw 50 per cent underlying growth¹².

Thirdly, we plan to accelerate growth in Eastspring by expanding its product and distribution capabilities. We have continued to develop new solutions, including our first fund offerings in China and Thailand as well as fixed maturity plans in Taiwan, Singapore, Malaysia and India. We maintained our strong investment performance with 60 per cent of retail and institutional funds outperforming over the past year, collectively helping to attract strong net flows from third parties. This in turn raised our funds under management by 25 per cent² to \$241.1 billion. Further streamlining of our front and middle-office operations was delivered in 2019, following the completion of Blackrock's Aladdin system implementation across 10 markets. Meanwhile, our disciplined focus on costs has led to further improvement in the cost-income ratio, which fell three percentage points to 52 per cent in 2019, and contributed to the 18 per cent growth in adjusted operating profit for the year to \$283 million. Following our acquisition of majority stakes in Thanachart Fund and TMB Asset Management, Eastspring is now Thailand's fourth largest mutual fund manager, with a market share of 12 per cent¹³ and combined assets under management of \$22 billion⁴.

Finally, we continue to expand our presence in China across both the insurance and asset management sectors. We recently established a new branch in Shaanxi, our 20th in the country, and have added seven cities and 14 sales services offices in 2019, extending our reach to 94 cities and 229 sales offices. Our current presence gives us access to 77 per cent of China's population¹⁴ and 83 per cent of the insurance market¹⁵. Coupled with our continued strong focus on execution, our geographic expansion has helped us achieve strong NBP growth of 38 per cent, with strong double-digit growth across both the agency and bancassurance channels. Our life joint venture also recently received regulatory approval to establish its own asset management company, which will further strengthen our capabilities in savings and retirement products. Furthermore, our wholly owned private fund manager established in Shanghai in December 2018 has secured over one billion Yuan in its first year of operation.

Customers

We believe that excellent customer service has been key to our strong reputation and leading pan-Asia franchise. During 2019, we added a further 1.4 million new life customers¹⁶, bringing the total to over 15 million life customers, of which about one-third are our health customers. Customer loyalty is high, as reflected by our strong retention ratio which has consistently remained in excess of 90 per cent. The satisfaction and trust our customers have in our business also translates into a high proportion of repeat sales, which comprised 45 per cent of APE sales in 2019. The result of these dynamics is a portfolio of close to 25 million in-force policies, with each policyholder holding 1.6 policies on average.

At Eastspring, the expansion in assets under management was driven by strong underlying growth of 26 per cent in external client funds, excluding the M&G related assets that were reclassified following the demerger. Overall external client funds reached \$124.7 billion and contributed to 52 per cent of the total funds under management at the end of 2019.

Our customer centric health ecosystem, which empowers consumers to take control of their personal health and wellbeing in an affordable way anytime and anywhere, has made a promising start. The number of individuals who have downloaded the Pulse by Prudential app has exceeded one million since launch in August 2019. Pulse will help us acquire and retain users at pace as we enhance its reach by expanding the scope of service and onboard new partners.

We continue to identify and target new customer groups and segments outside our traditional focus in the mass and affluent space in order to accelerate our future growth. We first expanded into the high net worth segment in 2018 with Opus in Singapore, which provided a differentiated experience for our customers, including a dedicated service team, wealth planners and external experts covering trust and legal matters. APE sales in this segment delivered impressive growth of 46 per cent in 2019 to \$76 million. Similarly, we also developed tailored offerings for SMEs, a segment that remains under-served and offers significant growth potential. This strategy is advanced through our all-inclusive platform, PRUworks, which provides a digitally-enabled HR solution for business owners and their employees, providing access to employee benefits and lifestyle programmes. In 2019, we achieved 22

per cent growth in our employee benefits APE in Singapore¹⁷ and leveraged this experience to extend our coverage to Indonesia. We have also developed strategies to reach the digitally-savvy millennial segment through TMRW, UOB's digital bank, and new partners such as OVO in Indonesia.

Products

We offer a wide range of insurance products that are tailored to local market requirements and fast-changing individual needs, with 67 per cent of new business profit contributed by health and protection solutions and the rest by savings products that include participating, linked and other traditional products. The diversity and resilience of our business is supported by the continued enhancements we make to our product range, which include broadening coverage for new risks and adding innovative features. Indeed, last year 16 per cent of new business profit and 55 per cent of external net inflows⁴ arose from the 166 products and 109 funds that were developed in 2019.

In Hong Kong, our new and innovative product offerings have contributed to the resilience of the domestic segment, which achieved 8 per cent APE sales growth in the full year. This growth accelerated to 12 per cent in the second half from 5 per cent in the first half despite the economic slowdown and social unrest. Our new qualified deferred annuity product was well received by customers in both the agency and bancassurance channels, and with sales of \$162 million accounted for 11 per cent of our Hong Kong APE sales since its launch on 1 April 2019. PruActive retirement marked our entry into the annuity market in Singapore, contributing 6 per cent to our Singapore APE sales since its launch in August. We also launched PRUHealth Cancer ReCover in Hong Kong, a first-in-market cancer protection plan tailored for cancer survivors and which also offers holistic homecare services to support in-home recovery.

The improvement of our Indonesia business, whose new business profit rose strongly by 39 per cent¹ in 2019, was also helped by the broadening of our product offering. Following the success of our upgraded unit-linked product, PRUlink Generasi Baru, that was launched in late 2018, we offered a number of new and refreshed products in 2019. To raise the productivity of our trainee agents we launched PRUCritical Benefit 88, our first standalone critical illness product, which accounted for around 10 per cent of the case count in this agent segment. Similarly, we refreshed our medical product, PRUprime Healthcare Plus, offering customers a simpler and faster process to upgrade health protection, and this was our best-selling product in Indonesia last year. We also plan to introduce new offerings to our critical illness and Shariah products, which we expect will help sustain the growth momentum in 2020.

NBP by Product	2019
H&P	67%
Par	21%
Non-par	5%
Linked	7%

Distribution

We believe in a multi-channel strategy for our business which can adapt and respond flexibly depending on local market conditions. Our distribution network is one of the strongest and most diversified in the Asia region. We have over 600,000 licensed tied agents across our life insurance markets, and this proprietary distribution channel is the core component of our success, comprising 83 per cent of our new business profit. We also have a leading bancassurance franchise that provides access to over 18,000 bank outlets through our strategic partnerships with multi-national banks and prominent domestic banks, which grew new business profit by 12 per cent in 2019. In recent years, we have also established non-traditional partnerships to broaden our reach further, with partners added in 2019 including Viettel, the largest telecommunications service provider in Vietnam. In total, we have more than 300 life insurance and asset management distribution partnerships in Asia.

Our focus on the agency channel positions us well for sustainable growth, as customers continue to have a strong preference for face-to-face advice from a trusted financial adviser, especially regarding complex protection and wealth solutions. We have created a culture whereby agents aspire to attain membership of the Million Dollar Round Table (MDRT), an industry-recognised indicator of quality. We place great emphasis on agent professionalism and promote career progression by providing tailored training programmes that share experience and best practice across different markets. In addition, to further assist our agents during the sales process and enhance productivity we continually upgrade the tools at their disposal. We currently boast a number one position in agency APE sales in Hong Kong and have increased MDRT qualifiers by 35 per cent in our markets outside Hong Kong, reflecting our focus on agent recruitment, training and productivity across different markets. For example, in Indonesia, our segmented agency strategy is delivering positive early results and played a key role in driving APE sales growth in 2019, with the Elite segment growing APE sales by 57 per cent to account for 25 per cent of total agency APE sales for the year.

Our partnerships also made exceptional progress last year. The bancassurance channel achieved APE sales growth of 14 per cent¹, with particularly strong performances in China JV and Vietnam and 24 per cent growth from UOB following the renewal of the strategic partnership at the beginning of the year. Meanwhile, we also extended our collaboration with new partners to widen our access to new customer segments, underlined by our new strategic partnership with OVO, the largest digital payment platform in Indonesia with access to 115 million devices. We anticipate that this partnership will significantly enhance our reach to digitally-savvy consumers in the country through the joint development of digital propositions that encompass health, wellness and wealth products. The experience will also help us in designing and managing distribution strategies in our existing markets as well as in targeting new or recent points of entry.

NBP by channel	2019
Agency	83%
Bancassurance	15%
Others	2%

Digital

In the face of rapidly evolving customer needs and technological disruption, we actively embrace change and the latest technology. Our digital strategy is being executed in two waves. The first focuses on increasing automation and improving digital capabilities in our current business model for better customer experience leading to better business results. The second adds a new business model based on a customer centric digital ecosystem which is manifested in our SuperApp branded Pulse by Prudential.

First wave: Enhancing our current business model

In the first wave we are continually increasing the automation of our operations so as to improve both business efficiency and customer experience. For example, 83 per cent of all new business was submitted through e-point-of-sale technology in 2019, representing an increase of 11 percentage points year-on-year, with the enhancement particularly pronounced in our bancassurance partners in Thailand, Taiwan and Malaysia. Our smart underwriting tool, which is now used in 64 per cent of all new sales, offers dynamic underwriting that streamlines the application process and communicates instant underwriting decisions to customers. We provide our rapidly growing digital-savvy customer-base with efficient and secure digital payment solutions, for example, through our recent partnership with Boost, a leading lifestyle e-wallet in Malaysia. We have established a strategic relationship with the global technology services company Tech Mahindra to leverage their scale and expertise in Cloud and Mobile to ensure faster deliveries across all markets.

At Eastspring, in addition to embedding Blackrock's Aladdin system, we have also made other digital advancements, with our Malaysian entity winning the 'Fintech Innovation in Asset Management' award in Asia Asset Management's '2020 Best-of-the-Best awards'. This reflected the continued enhancements to our online platform, myEastspring, which enables our clients to access, monitor and transact online and includes tools for our agents to help clients predict their future savings needs. We also launched a new digital facility that empowers members of the Employees Provident Fund to take control of their investments and make transactions at nearly zero cost.

Second wave: Building an ecosystem-based business model

In the second wave, to aid the expansion of our role from providing protection to making customers healthier, we have added an ecosystem-based business model which is manifested in our Pulse by Prudential app. Built on the latest architecture, Pulse is scalable and is based on real data and artificial intelligence (AI) technology focusing on positive outcomes for customers and our businesses. This business model also uses a wide range of partnerships and the latest trends in health and wealth technology, allowing us to fulfil our strategic imperative to add prevention and postponement to our protection business. So far we have secured 18 market-leading partners across an array of different elements. We believe this will help us to acquire users at pace and gain access to new data, whilst enabling our customers to enjoy a wide range of affordable healthcare and value-added services to help them live longer and healthier lives. Currently live in eight markets, Pulse will continuously improve as we roll out new functionalities, increase partnerships and learn from direct user feedback over time.

The component of Pulse designed for the fast-growing small and medium enterprise (SME) segment in Asia is known as PruWorks. Following its launch in Singapore and Indonesia, we are now enhancing this further with a fully integrated, new administration system as well as direct connectivity to enhance customer experience for SMEs and their employees.

Highlights of key ecosystem partners		
Ecosystem partners	Markets (to be) covered	Ecosystem elements
Babylon	Regional	Health assessment, triage, AI symptom checker
DOC	Malaysia	Online consultations, telemedicine
Halodoc	Indonesia	Telemedicine
Mydoc	Regional	Telemedicine
TICTRAC	Regional	Wellness, engagement and rewards
Prenetics	Hong Kong	DNA testing
OVO	Indonesia	e-payment; alternative distribution channel
Boost	Malaysia	e-payment
LIME	Malaysia	Dengue alert
HaelthTech	Regional	SME cloud computing
Freedompop	Regional	Data analytics and lead generation
TMRW	Regional	UOB's digital bank
MyanCare	Myanmar	Digital healthcare
Flexible Pass	Myanmar	Wellness, engagement and rewards
AIS	Thailand	Digital service provider, Group business
Viettel	Vietnam	Telecommunication and e-payment
Central Group	Thailand	Customers and behavioural data, distribution
Chiiwii	Thailand	Telemedicine

Corporate responsibilities

We have a large number of staff and agents across our life and asset management businesses across Asia, and an explicit inclusive approach to hiring and monitoring diversity. Progressively, we seek to ensure that mobility is not just seen as part of the opportunity provided to improve our individuals' skills but is also a source of key competitive advantage as we take learnings from one operation and apply them in another. The change in the method of managing agents in Indonesia using techniques developed in Vietnam is a prime example of this.

We have long-standing and strong relationships with the regulators in the markets we operate in. This is built on a culture of compliance with the rules and our promotion of financial services in the context of public policy. To drive the insurance penetration rates in protection and savings products which are desired by governments and regulators in the region, we support the process of deepening capital markets, building robust regulatory and legal frameworks and enhancing financial literacy in the markets in which we operate, which in turn supports economic growth and stability. We see our investment appetite and risk management approach as contributing to the development and stability of the capital markets for the markets in which we operate. We actively engage with fellow market counterparties and governments to foster greater depth, transparency and liquidity of markets.

The responsible and sustainable management of our tax affairs also helps us to maintain constructive relations with our stakeholders and play a positive role in the economy. We take a long-term perspective and balance our responsibility to support our business strategy with our responsibility to the communities in which we operate, which need sustainable tax revenues. We understand the importance of paying the right amount of tax on time. We manage our tax affairs transparently and seek to build constructive relationships with tax authorities in all the countries in which we operate.

COVID-19 update

We continue to monitor closely the development of the coronavirus outbreak. Our priority is the health and wellbeing of our customers and staff during this challenging time. In China and Hong Kong, we were one of the first insurance companies to launch extra free protection and coverage against this disease. Similarly, in another eight Asian markets we are offering additional free hospital cash benefits and other lump sum benefits to customers diagnosed with this disease, alongside a series of measures and services to support affected customers in a timely manner, such as dedicated hotlines and simplified claims procedures. For our staff, we have put in place flexible work arrangements, for example on work hours and work location, as well as enhanced hygienic tools in the office.

While the coronavirus outbreak has slowed down economic activities in the year-to-date and dampened our sales momentum in Hong Kong and China, we remain confident in the medium to long-term prospects of these economies and their respective insurance sectors. Our broad geographic spread across the region and the strength of our recurring premium business model lends considerable resilience to our earnings. We will continue to collaborate actively with the relevant governments and uphold our corporate and social responsibilities. This is exemplified by the recent donation of RMB15 million to support efforts in fighting against the disease by our joint ventures in China¹⁸. We will also continue to stand by our customers steadfastly and make them healthier with our 'best-in-class' health and protection capabilities.

Business outlook

Asia's growth fundamentals and demographic trends remain robust and we expect will continue to support strong growth for the insurance and asset management industries in Asia.

We are well placed to capture these structural prospects given our market-leading positions, focused strategic priorities, high-quality execution and expanding digital capabilities.

We have built a track record of consistent and resilient expansion across cycles over the past decades, and we are confident in continuing to replicate our past success and to make our customers in Asia healthier and wealthier in the years to come.

Notes

- 1 Increase stated on a constant exchange rate basis.
- 2 Increase stated on an actual exchange rate basis.
- 3 See note II of the Additional unaudited financial information for definition and reconciliation to IFRS balances.
- 4 Excludes Money Market Fund.
- 5 Source: Allianz Global Insurance Market at a crossroads, May 2019. Global life insurance premium derived from total insurance premium.
- 6 Market penetration: Swiss Re (Sigma) – based on insurance premiums as a percentage of GDP in 2018 (estimated).
- 7 Source: PWC Asset & Wealth Management 2025 report.
- 8 Swiss Re Institute: The health protection gap in Asia, October 2018. Average gap per household is calculated as 'total health protection gap divided by estimated number of households hospitalised under the mentioned gap range'. Report excludes Cambodia and Laos.
- 9 Weighted premium income comprises gross earned premiums at 100 per cent of renewal premiums, 100 per cent of first-year premiums and 10 per cent of single premiums.
- 10 Total insurance margin (\$2,244 million) and fee income (\$286 million) of \$2,530 million divided by total life income excluding other income of \$2,958 million (Comprised of total life income of \$6,187 million less other income of \$3,229 million). For discussion on the basis of preparation of the sources of earnings see note I(iv) of the Additional unaudited financial information.
- 11 APE sales mix refers to the proportion of total market APE sales accounted for by each product type.
- 12 Assuming no change in our shareholding.
- 13 Mutual fund market shares; mutual fund assets under management as at 31 December 2019.
- 14 Source: National Bureau of Statistics of China.
- 15 By life and health GWP in 2019.
- 16 Excluding India.
- 17 Excluding broker channel.
- 18 RMB10 million by CPL and RMB5 million by Citic Pru FMC.

United States

Providing America's ageing population with financial strategies for their retirement through product innovation and developing market-leading distribution capabilities.

2019 performance highlights

- Launches of Jackson's RateProtector, a single premium, multi-year guarantee fixed annuity, as well as MarketProtector and MarketProtector Advisory fixed index annuity products, contributing to an 8 per cent increase in new business sales
- Continued growth of advisory sales, with new business sales up 30 per cent as distribution models continue to evolve
- Expanded advisory distribution footprint with Morgan Stanley, DPL Financial Partners, TD Ameritrade and RetireOne
- Awarded 'Contact Center World Class CX Certification' and 'Highest Customer Service for the Financial Industry' awards by The Service Quality Measurement Group, Inc
- Actively engaged with FinTech partners including Envestnet, MoneyGuidePro and eMoney
- Adjusted operating profit up 20 per cent to \$3,070 million and new business profit down 28 per cent to \$883 million

The US is the world's largest retirement savings market with approximately four million Americans reaching retirement age every year. This transition continues to trigger the unprecedented shift of trillions of dollars from savings accumulation to retirement income generation.

However, these Americans face challenges in planning for life after work. For those nearing the end of their working careers, a financially secure retirement is at risk, due to insufficient accumulation of savings and the current combination of low yields and market volatility. Employer-based pensions are being withdrawn, and state and government plans are underfunded as the impact of increased administrative costs and lower interest rates continue to reduce the affordability of the post-war pensions model. Social security was never intended to be a primary retirement solution and today its long-term funding status is in question. Additionally, the life expectancy of an average retiree has significantly increased, lengthening the number of years for which retirement funding is needed.

To overcome these challenges, Americans need and demand retirement strategies that offer them the opportunity to grow and protect the value of their existing assets, as well as the ability to provide guaranteed income that will last throughout their extended lifetimes. Achieving this will reduce the gap many retirees face between income needed during retirement and the income they can generate from their retirement assets and social security. Reducing this gap is a public benefit as it helps reduce strain on supplemental government programmes for those in need.

Jackson believes that a retirement plan integrated with an income guarantee annuity will mitigate much of the risk of retirees running out of money during retirement. In response to this demand and the ongoing shift to fee-based solutions, Jackson has positioned itself with product innovation and distribution strategies to provide a wide spectrum of choice when selecting the retirement product that best fits customer needs. This will allow Jackson to enhance further our market-leading variable annuity position in the brokerage market, diversify in the fixed annuity and fixed index annuity space and grow in the advisory retirement solutions market. Jackson has demonstrated its ability to diversify during the year, growing the proportion of APE sales accounted for by fixed annuity, fixed index annuity and wholesale business to 34 per cent, from 19 per cent in the prior year.

Customers and products

Through its distribution partners, Jackson provides products that offer Americans the retirement strategies they need, including variable, fixed and fixed index annuities. Each of these products offer a unique range of features tailored to meet the individual needs of the retiree as discussed below:

Variable annuity A Jackson variable annuity, with investment freedom, represents an attractive option for retirees and soon-to-be-retirees, providing both access to equity market appreciation and guaranteed lifetime income as an add-on benefit.

Fixed index annuity A Jackson fixed index annuity is a guaranteed product with limited market exposure but no direct equity ownership. It is designed to build wealth through a combination of a base crediting rate that is generally lower than a traditional fixed annuity crediting rate, but with the potential for additional upside, based upon the performance of the linked index. Jackson also provides access to guaranteed lifetime income as an add-on benefit.

Fixed annuity A Jackson fixed annuity is a guaranteed product designed to build wealth without market exposure, through a crediting rate that is likely to be superior to interest rates offered from banks or money market funds.

These products also offer tax deferral, allowing interest and earnings to grow tax-free until withdrawals are made.

Jackson has a proven track record in this market with its market-leading flagship product, Perspective II¹. Jackson's success has been built on its quick-to-market product innovation, as demonstrated by the development and launch of Elite Access, our investment-only variable annuity. Further demonstrating Jackson's flexibility and manufacturing capabilities, and in response to the trend in financial services toward fee-based solutions, Jackson has launched Perspective Advisory II, Elite Access Advisory II and the innovative MarketProtector Advisory, the industry's first fully-liquid advisory fixed index annuity, to serve advisers and distributors with a preference for advisory products.

In June 2019, Jackson launched RateProtector, a single premium, multi-year guarantee fixed annuity. RateProtector offers consumers the opportunity to protect and grow their assets through guaranteed interest rates that will not fluctuate during a select period, combined with the ability to defer taxes on any earnings until money is withdrawn.

Market reception for these products has been positive and these have contributed to the delivery of the organic diversification of Jackson sales in 2019, with new business APE sales up 8 per cent to \$2,223 million (2018: \$2,059 million). The planned transition

to a more balanced portfolio has resulted in higher investment in new business in 2019 which over time is expected to enhance statutory capital and cash generation.

Jackson operates within a well-defined risk framework and takes into account the expected cost of hedging when pricing its products. It aggregates financial risks across the company, obtains a unified view of its risk positions, and actively manages net risks through a hedging programme which aims to manage economic risk. Some accounting volatility is expected in periods of large market movements as was seen in 2019, given the economic focus described above, and this has impacted IFRS profitability in the year, as further discussed in the Group Chief Financial Officer and Chief Operating Officer's report. However, the benefits of Jackson's hedging programme have been demonstrated in times of equity market decline, for example during the fourth quarter of 2018 and during the recent market turbulence. At the end of 2019 Jackson's surplus of available capital over required capital was \$3,795 million after adopting the NAIC's changes to its framework for variable annuities. This equates to a ratio of 366 per cent (2018: 458 per cent using the previous NAIC framework). Jackson continues to monitor closely the recent changes in markets and take the appropriate actions through its dynamic hedging strategy. If these conditions persist management could take additional actions to assist in mitigating the impact.

Distribution

Jackson distributes products in all 50 states of the US and in the District of Columbia. Operations in the state of New York are conducted through a New York subsidiary. Jackson markets its retail products primarily through advice-based distribution channels, including independent agents, independent broker-dealer firms, regional broker-dealers, wirehouses and banks. For variable annuity sales, Jackson is the leader in the independent broker-dealer, bank and wirehouse channels² and third in regional firms².

Jackson's distribution strength also sets us apart from our competitors. Our highly productive wholesaling force is the largest³ in the annuity industry and is instrumental in supporting the independent advisers who help the growing pool of American retirees develop effective retirement strategies. Our wholesalers provide extensive training to thousands of advisers about the range of products and the investment strategies that are available to support their clients. Based on the latest available data, Jackson is the second most productive variable annuity wholesale distribution force in the US³.

In 2019, Jackson invested significant time and resources with fintech partners to help illustrate the benefits a lifetime income solution can provide within a comprehensive wealth management plan. This gives the financial adviser the necessary tools to customise according to the unique needs and goals of the client. Additionally, investment freedom within VA investment options allows the adviser to build a diversified portfolio that is customised to meet their clients' individual priorities and preferences, rather than locking them into restrictive allocation models. Some of the fintech platforms where Jackson is actively engaged include eMoney, MoneyGuidePro and Envestnet.

In 2019, Jackson announced distribution agreements with DPL Financial Partners (DPL), TD Ameritrade and RetireOne to provide our protected lifetime income solutions to independent registered investment advisers (RIAs). The collaboration expands Jackson's distribution footprint and provides Jackson with access to new opportunities in the independent RIA channel. In addition to these new relationships, Jackson's distribution partnership announced in late 2018 with State Farm is targeted to roll out in the first quarter of 2020. These new partnerships show Jackson's determination and progress on channel diversification.

Regulatory landscape

The regulatory outlook for the industry has improved since the passing of the Securities and Exchange Commission's (SEC) Best Interest Regulation in June 2019. This replaced proposed legislation known as the DOL Fiduciary Duty Rule. The SEC's finalised rule creates a best interest standard of conduct for broker-dealers and is designed to be 'product agnostic', meaning that it is not intended to give preference to or target any specific product. Instead, the rule enhances the diligence required when advising customers about suitable, albeit more complex, products such as variable annuities. The rule became effective 60 days after being published in the Federal Register (12 July 2019) and includes a transition period until 30 June 2020.

Despite lower interest rates, the life insurance industry saw increased total annuity sales as of the third quarter of 2019, primarily due to a clearer regulatory environment and more aggressive product feature changes (ie withdrawal percentages) implemented by competitors. Higher industry sales of fixed annuities were offset slightly by lower variable annuity sales.

Regardless of the outcome of the SEC best interest standard, the regulatory disruption caused by the now rescinded DOL Rules has challenged the industry to review the ways in which investment advice is provided to American investors. Manufacturers will need to have the ability to provide product and system adaptations in order to support the success of various distribution partners in their delivery of the retirement strategies that investors need. Because of its strong distribution, leadership in the annuities market, best-in-class service and an efficient operation, we believe that Jackson is well positioned to take advantage of this opportunity.

In December 2019, the Setting Every Community Up for Retirement Enhancement Act (SECURE Act) was passed into law, bringing positive changes to the US retirement system. A significant change includes the portability of lifetime income products, permitting participants to preserve their lifetime income investments and avoid surrender charges and fees. Another provision of the Act clarifies the existing Employee Retirement Income Security Act safe harbour and removes ambiguity about the applicable fiduciary standard that currently acts as a roadblock to offering lifetime income benefit options under a defined contribution plan. Under this provision, for purposes of fulfilling their fiduciary duty to select an annuity provider, defined contribution plan fiduciaries may rely on representations from insurers regarding their status under state insurance laws. The enactment of these provisions, and the SECURE Act as a whole, are important steps in facilitating Americans' ability to achieve financial freedom for life.

We believe that Jackson is well positioned to manage the impact of these regulatory changes and welcome the outcomes of the revised regulations.

At 31 December 2019, Jackson early adopted the new US regulatory regime enacted by the National Association of Insurance Commissioners in respect of variable annuities. The effect of this change is further discussed in the Group Chief Financial Officer and Chief Operating Officer's report on the 2019 financial performance.

Corporate responsibility

As a provider of savings and protection products, stewardship is core to what we do. We recognise that to help our customers look to the future with confidence, we need to take a long-term view on a wide range of issues that affect our business and the communities in which we operate. To do this, we maintain a proactive dialogue with our stakeholders – customers, investors, employees, communities, regulators and governments – to ensure that we are managing these issues sustainably and delivering long-term value.

Jackson seeks to provide the best retirement solutions that we can, while striving to communicate information about those products in a fair and transparent way. In the US, Jackson continues to be a leader in shifting perspectives and simplifying the language around financial products. In 2018, Jackson led the creation of a groundbreaking, industry-wide coalition seeking to help mitigate America's looming retirement crises, the Alliance for Lifetime Income. The Alliance is a tremendous leap forward in Jackson's ongoing commitment to educating Americans about the importance of lifetime income in retirement planning.

At Jackson, we take an inclusive approach to responsible investment, seeking to integrate environmental, social and governance (ESG) considerations into our investment processes and stewardship activities through active ownership practices and engagement with investee companies. We also maintain the ability to exclude entities from our internal investment mandates, where their practices, policies or procedures conflict with our values, or where we see a need to explicitly recognise international consensus.

As a long-term investor, Jackson considers both financial and non-financial factors in our investment processes, decision-making and ownership practices that may have a meaningful impact on our customers' long-term investment outcomes. Similarly, as active asset owners of the capital we invest on behalf of our customers, we believe that due consideration of the various factors that can impact investment returns is part of our fiduciary duty to our customers.

Jackson also takes pride in helping the communities in which we operate, providing significant employment, tax revenues, charitable programmes and contributions, as well as the investment of general account assets, all of which provide valuable public services and build infrastructure for the benefit of the wider community and economy.

Investment for growth

We believe that a significant opportunity exists to reach even more American retirees and serve their needs with annuity products going forward. This is because there are trillions of dollars of adviser-distributed assets across distribution platforms that have not historically been a focus for the business, such as the dual-registered investment adviser channel, which we can seek to access. The industry will need to remain flexible and cost-effective in making changes to product systems and processes. We continue to seek to understand and make the necessary adjustments to support the needs and demands of American retirees into the future.

Jackson is making significant investments in new technologies, which allows us to provide better service that will give our customers what they want, when they want it. These new technologies will also provide higher quality data so that our executives and staff across the business can make better informed decisions with regard to risk, and with how and where to invest.

Jackson's competitive strengths are even more critical as we work towards diversification and growth, within a highly competitive insurance industry. The breadth and depth of our best-in-class distribution team, our agility and success in launching well designed customer-centric products, the continued success of our risk management and hedge programmes through many economic cycles, and our significant investment in technology platforms and award-winning customer service will provide Americans with the retirement strategies they so desperately need. Jackson's discipline helps enable us to be positioned to potentially capture additional growth during times of transition into the future.

Notes

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- 3 Independent research and Market Metrics, a Strategic Insight Business: U.S. Advisor Metrics 2019, as of 30 September 2019.

Group Chief Financial Officer and Chief Operating Officer's report on the 2019 financial performance

I am pleased to report that we maintained focus on the execution of our strategy alongside the successful completion of the demerger of M&G plc and that this has continued to deliver positive financial performance in 2019.

Growth has once again been led by our businesses in Asia, which reflects the benefits of our well positioned and broad-based portfolio, which has long focused on high quality, recurring premium business. In 2019, this saw our life businesses outside Hong Kong deliver overall new business profit growth of 29 per cent¹, and within this 10 markets increasing new business profit. While Hong Kong has seen a more challenging sales environment, the resilience of its business model is demonstrated by its 24 per cent¹ growth in adjusted operating profit, which contributed to the 14 per cent¹ increase in adjusted operating profit delivered by our overall Asia business.

Our US business took its first steps in the execution of its diversification strategy, broadened its presence across the US annuity market, delivered increased remittances to the Group and early adopted the new National Association of Insurance Commissioners (NAIC) variable annuity framework. Jackson has successfully demonstrated its ability both to develop and distribute new products in order to diversify its product range. Over time, this will contribute to a more balanced mix of policyholder liabilities which will enhance statutory capital and cash generation. During 2019, this transition has resulted in a higher investment in new business than has been seen in recent periods, with resulting impacts on capital generation and new business profit margins.

During 2019 our head office activities incurred costs of \$(460) million (2018: \$(490) million²). The demerger of M&G plc provides us with the opportunity to optimise the operating model of our Group functions across our head office. We are well advanced in developing and executing plans that will deliver total savings of circa \$180 million³, targeting a revised run-rate from 1 January 2021⁴. We have already completed the first phase of this work which will deliver annual savings⁵ of \$55 million.

Over 2019, global equity markets rallied strongly. In the US markets the S&P 500 index increased by 29 per cent over 2019, but government bond yields were generally lower over the period, with the US 10 year government bond yield ending the year at 1.9 per cent (2018: 2.7 per cent).

The impact of these market effects are most prevalent in the US's results. Jackson's hedging programme is focused on managing the economic risks in the business and protecting statutory solvency in the circumstance of large market movements. The hedging programme does not aim to hedge IFRS accounting results and this can lead to volatility in the IFRS results in periods of significant market movements, as was seen in 2019. In particular, while higher equity markets are expected to deliver ultimately increased profitability to Jackson through higher future fee income, this benefit is not fully recognised in the IFRS results in the short term. This contrasts with the impact on the derivatives within the hedging programme, designed to provide protection when markets fall, where rises in equity markets lead to short term losses in the IFRS results. These losses have been exacerbated by falling interest rates in 2019, which have led to an increase in the IFRS liabilities for the guarantees attaching to variable annuities given lower discount rates and lower assumed future separate account growth, impacting directly on the income statement. Collectively, these factors led to an IFRS loss after tax of \$(380) million for the US over 2019. The interest rate falls have also led to gains on bonds, which are recognised outside the income statement, and US's IFRS segment shareholders' equity increased from \$7,163 million at the end of 2018 to \$8,929 million at the end of 2019. EEV has fewer mismatches (for example future fee income is fully recognised), but fluctuations in interest rates also impact Jackson's EEV results, since EEV discount rates and future expectations of separate account returns are based on current risk free rates. While our IFRS and EEV results in 2019 may therefore show a degree of volatility, we believe that the Jackson business is positioned to enhance its capital and cash generation over time as it continues to focus on the US retirement market opportunity.

We have presented the results of the UK and Europe operations (referred to as M&G plc) as discontinued operations and have adopted the US dollar as our presentational currency which better reflects the economic footprint of our business going forward. Prior year comparatives have been restated, as required under IFRS. However comparative balance sheet amounts are not restated for discontinued operations. As in previous years, growth rates referred to are on a constant exchange rate basis unless otherwise stated.

Adjusted operating profit before tax from continuing operations

Prudential's adjusted IFRS operating profit based on longer-term investment returns (adjusted operating profit) from continuing operations increased in 2019 to \$5,310 million (20 per cent higher on a constant and actual exchange rate basis). This increase was driven by higher earnings from our Asia life insurance and asset management operations, and by lower market-related DAC amortisation charges compared with the prior year in the US, as a result of the strong equity market returns achieved in 2019. Other income and expenditure generated a net cost of \$(926) million (2018: \$(967) million²). Of this, \$(179) million related to interest costs in respect of debt instruments transferred to M&G plc on 18 October 2019 prior to completion of the demerger. Excluding these amounts, interest costs for the continuing Group would have been \$(337) million, lower than 2018 following the redemption of debt in the first half of 2019.

IFRS basis non-operating items from continuing operations

Non-operating items in 2019 consist of short-term fluctuations in investment returns on shareholder-backed business of negative \$(3,203) million (2018: negative \$(791) million on an actual exchange rate basis), the net loss arising from corporate transactions undertaken in the year of negative \$(142) million (2018: negative \$(107) million on an actual exchange rate basis), and the amortisation of acquisition accounting adjustments of negative \$(43) million (2018: negative \$(61) million on an actual exchange rate basis) arising mainly from the REALIC business acquired by Jackson in 2012.

The \$(142) million cost of corporate transactions reflects gains from disposals offset by the \$(407) million incurred in the year in connection with the demerger of M&G plc from Prudential plc, in line with our previous guidance. Further information is set out in note D1.1 to the financial statements.

Negative short-term fluctuations comprised positive \$657 million (2018: negative \$(684) million on an actual exchange rate basis) for Asia, negative \$(3,757) million (2018: negative \$(134) million) in the US and negative \$(103) million (2018: positive \$27 million on an actual exchange rate basis) in other operations.

Falling interest rates in certain parts of Asia led to unrealised bond gains in the year which are accounted for within non-operating profit. In the US, rising equity markets and falling interest rates have resulted in negative effects primarily reflecting net losses on hedge instruments used to manage the market exposure of Jackson's products and by changes in the IFRS value for these features. Further discussion of Jackson's non-operating items is contained in the US section of this report.

After allowing for non-operating items, the total profit after tax from continuing items was \$1,953 million (2018: \$2,881 million²).

In addition to the effects seen above, falling interest rates resulted in unrealised gains of \$2.7 billion being recognised outside the income statement as part of other comprehensive income, partially mitigating the adverse effect of market movements on the Group's IFRS shareholders' funds.

IFRS loss after tax from discontinued operations

In the period prior to demerger, \$1,319 million IFRS profit after tax was recognised from the discontinued M&G plc business. On distribution to shareholders as a dividend in specie the net assets of the business were remeasured to the market value of M&G plc on listing, resulting in a gain of \$188 million recognised within the loss from discontinued operations for the year. As a result of representing the historical results of M&G plc in US dollars (as opposed to sterling), a loss of \$(2,668) million was recognised at the date of demerger representing cumulative foreign exchange differences held in the currency translation reserve. This arose from the fall in the sterling/US dollar exchange rate over the period since the currency translation reserve was established in 2004. This was matched by an equal and opposite gain in other comprehensive income resulting in no overall impact on shareholders' funds. Reflecting the above, the total loss from discontinued operations after tax was \$(1,161) million. The rest of this report focuses solely on the continuing operations of the Group.

IFRS effective tax rates

In 2019, the effective tax rate on adjusted operating profit based on longer-term investment returns from continuing operations was 15 per cent. This was unchanged from 2018.

The 2019 effective tax rate on total IFRS profit was negative (2) per cent (2018: 16 per cent). The decrease in the 2019 effective tax rate reflects increased derivative losses in the US where the effective tax rate on these items is higher (at 21 per cent) than the effective tax rate on profit from Asia operations.

Total tax contribution from continuing operations

The Group continues to make significant tax contributions in the jurisdictions in which it operates, with \$2,168 million remitted to tax authorities in 2019. This increased from the equivalent amount of \$1,829 million² remitted in 2018, primarily due to the timing of when various tax payments became due.

Tax strategy

The Group publishes its tax strategy annually which, in addition to complying with the mandatory UK (Finance Act 2016) requirements, also includes a number of additional disclosures, including a breakdown of revenues, profits and taxes for all jurisdictions where more than \$5 million tax was paid. This disclosure is included as a way of demonstrating that our tax footprint (ie where we pay taxes) is consistent with our business footprint. An updated version of the tax strategy, including 2019 data, will be available on the Group's website before 31 May 2020.

IFRS profit

	Actual exchange rate			Constant exchange rate	
	2019 \$m	2018 \$m	Change %	2018 \$m	Change %
Adjusted operating profit based on longer-term investment returns before tax from continuing operations					
Asia					
Long-term business	2,993	2,646	13	2,633	14
Asset management	283	242	17	239	18
Total Asia	3,276	2,888	13	2,872	14
US					
Long-term business	3,038	2,552	19	2,552	19
Asset management	32	11	191	11	191
Total US	3,070	2,563	20	2,563	20
Total segment profit from continuing operations	6,346	5,451	16	5,435	17
Other income and expenditure	(926)	(967)	4	(933)	1
Total adjusted operating profit based on longer-term investment returns before tax and restructuring costs	5,420	4,484	21	4,502	20
Restructuring costs	(110)	(75)	(47)	(73)	(51)
Total adjusted operating profit based on longer-term investment returns before tax from continuing operations	5,310	4,409	20	4,429	20
Non-operating items:					
Short-term fluctuations in investment returns on shareholder-backed business	(3,203)	(791)	(305)	(796)	(302)
Amortisation of acquisition accounting adjustments	(43)	(61)	30	(61)	30
Gain (loss) on disposal of businesses and corporate transactions	(142)	(107)	(33)	(106)	(34)
Profit from continuing operations before tax attributable to shareholders	1,922	3,450	(44)	3,466	(45)
Tax credit (charge) attributable to shareholders' returns	31	(569)	105	(570)	105
Profit from continuing operations for the year	1,953	2,881	(32)	2,896	(33)
Profit for the year from discontinued operations	1,319	1,142	15	1,092	21
Remeasurement of discontinued operations on demerger	188	-	n/a	-	n/a
Cumulative exchange loss recycled through other comprehensive income	(2,668)	-	n/a	-	n/a
(Loss) profit from discontinued operations for the year, net of related tax	(1,161)	1,142	(202)	1,092	(206)
Profit for the year	792	4,023	(80)	3,988	(80)

IFRS earnings per share

	Actual exchange rate			Constant exchange rate	
	2019 cents	2018 cents	Change %	2018 cents	Change %
Basic earnings per share based on adjusted operating profit after tax from continuing operations	175.0	145.2	21	146.0	20
Basic earnings per share based on:					
Total profit after tax from continuing operations	75.1	111.7	(33)	112.5	(33)
Total (loss) profit after tax from discontinued operations	(44.8)	44.3	(201)	42.4	(206)

Group capital position

Following the demerger of M&G plc from Prudential plc, the Hong Kong Insurance Authority (IA) is now the Group-wide supervisor for the Prudential Group. Ultimately, the Group will become subject to the Group-wide Supervision (GWS) Framework which is currently under development by the Hong Kong IA for the industry and is expected to be finalised in the second half of 2020. Until it comes into force, Prudential is applying the local capital summation method (LCSM) that has been agreed with the Hong Kong IA to determine Group regulatory capital requirements.

At 31 December 2019, the Group's LCSM surplus over the Group minimum capital requirement (GMCR) was estimated at \$9.5 billion on a shareholder basis⁶, equivalent to a solvency ratio of 309 per cent, and compares with a like-for-like position at 31 December 2018 of \$9.7 billion and ratio of 356 per cent.

The high quality and recurring nature of the Group's operating capital generation and disciplined approach to managing balance sheet risk is evident from the \$2.5 billion of in-force capital generation in the period, which supported \$0.6 billion of investment in new business (on an LCSM basis), inorganic investment in Asia along with external dividends. The movement in LCSM surplus also includes demerger and other capital related items. More information is set out in note I(i) of the Additional unaudited financial information. The Group's LCSM position is resilient to external macro movements as demonstrated by the sensitivity disclosure contained in note I(i) of the Additional unaudited financial information, alongside further information on the basis of calculation of the LCSM measure.

The Group is no longer subject to Solvency II capital requirements nor regulated by the Bank of England.

Estimated Group LCSM capital position ⁶	31 December 2019		31 December 2018 [†]	
	Total	Shareholder*	Total	Shareholder*
Available capital (\$ billion)	33.1	14.0	27.0	13.5
Group minimum capital requirement (GMCR) (\$ billion)	9.5	4.5	7.6	3.8
LCSM surplus (over GMCR) (\$ billion)	23.6	9.5	19.4	9.7
LCSM ratio (over GMCR) (%)	348%	309%	355%	356%

*The shareholder LCSM amounts exclude the available capital and minimum capital requirements of the participating business in Hong Kong, Singapore and Malaysia.

† Excludes M&G plc and includes \$3.7 billion of subordinated debt issued by Prudential plc that was transferred to M&G plc on 18 October 2019.

Financing and liquidity

Net core structural borrowings of shareholder financial businesses⁷

	31 December 2019 \$m			31 December 2018 \$m		
	IFRS basis	Mark-to-market value	EEV basis	IFRS basis	Mark-to-market value	EEV basis
Subordinated debt substituted to M&G plc in 2019	-	-	-	3,718	82	3,800
Other core structural borrowings	5,594	633	6,227	6,043	151	6,194
Total borrowings of shareholder-financed businesses	5,594	633	6,227	9,761	233	9,994
Less: holding company cash and short-term investments	(2,207)	-	(2,207)	(4,121)	-	(4,121)
Net core structural borrowings of shareholder-financed businesses	3,387	633	4,020	5,640	233	5,873
Gearing ratio*	15%			20%		

* Net core structural borrowings as proportion of IFRS shareholders' funds plus net debt, as set out in note II of the Additional unaudited financial information.

The total borrowings of the shareholder-financed businesses decreased by \$(4.2) billion, from \$9.8 billion to \$5.6 billion in 2019. This reflected the substitution of \$4,161 million Tier 2 subordinated notes to M&G plc as part of the demerger (including £300 million 3.875 per cent Tier 2 subordinated notes issued in July 2019), and the redemption of £400 million 11.375 per cent Tier 2 subordinated notes in May 2019. The Group had central cash resources of \$2.2 billion at 31 December 2019 (31 December 2018: \$4.1 billion), resulting in net core structural borrowings of the shareholder-financed businesses of \$3.4 billion at end 2019 (2018: \$5.6 billion).

In addition to its net core structural borrowings of shareholder-financed businesses set out above, the Group has access to funding via the medium-term note programme, the US shelf programme (the platform for issuance of SEC registered bonds in the US market), a commercial paper programme and committed revolving credit facilities. All of these are available for general corporate purposes.

Prudential plc has maintained a consistent presence as an issuer in the commercial paper market for the past decade and had \$520 million in issue at the year end (2018: \$601 million).

As at 31 December 2019, the Group had a total of £2.0 billion of undrawn committed facilities, expiring in 2024. Apart from small drawdowns to test the process, these facilities have never been drawn, and there were no amounts outstanding at 31 December 2019.

In addition to the Group's traditional sources of liquidity and financing, Jackson also has access to funding via the Federal Home Loan Bank of Indianapolis with advances secured against collateral posted by Jackson. Given the wide range of Jackson's product set and breadth of its customer base including retail, corporate and institutional clients, further sources of liquidity also include premiums and deposits.

Prudential plc seeks to maintain its financial strength rating which derives, in part, from the high level of financial flexibility to issue debt and equity instruments which is intended to be maintained and enhanced in the future.

Cash remittances

Holding company cash flow⁷

	Actual exchange rate		Change %
	2019* \$m	2018* \$m	
From continuing operations			
Asia	950	916	4
US	509	452	13
Other UK (including Prudential Capital)	6	49	(88)
Total net cash remitted from continuing operations	1,465	1,417	3
From discontinued operations			
M&G plc	684	842	(19)
Net cash remitted by business units	2,149	2,259	(5)
Central outflows	(522)	(572)	
Dividends paid	(1,634)	(1,662)	
Other movements	(1,999)	1,153	
Total holding company cash flow	(2,006)	1,178	
Cash and short-term investments at beginning of year	4,121	3,063	
Foreign exchange movements	92	(120)	
Cash and short-term investments at end of year	2,207	4,121	

*The holding company cash flow describes the movement in the cash and short-term investments of the centrally managed group holding companies.

Cash remitted to the Group from continuing operations in 2019 amounted to \$1,465 million, included \$950 million from Asia and \$509 million from the US. In addition, \$684 million of remittances were received pre-demerger from M&G plc (excluding the \$3,841 million pre-demerger dividend used to offset the payment due to M&G plc in return for the substitution of debt).

During 2019, the Group's holding company cash flow was managed in sterling and significant remittances were hedged and recorded on that basis. Growth rates are therefore distorted by the onwards translation into US dollars for presentation purposes. If local currency remittances in Asia had been translated directly into US dollars⁸, then the growth rate in Asia remittances year-on-year would have been 8 per cent (compared with 4 per cent shown in the table above). The dividend paid by the US in 2019 was \$525 million (2018: \$450 million). From 1 January 2020, holding company cash flow will be managed in US dollars and no such distortions will occur.

Cash remittances were used to meet central costs of \$(522) million, pay dividends of \$(1,634) million and meet other expenditure of \$(1,999) million. Corporate expenditure includes net interest paid of \$(527) million of which \$(231) million relates to that expended on debt substituted to M&G plc. Corporate expenditure is net of receipts of \$265 million in 2019 from tax received. The level of tax receipts is expected to decline sharply in 2020, and then is not expected to recur going forward given the demerger of UK operations and the level of UK income which can be used to offset central UK expenditure.

Other expenditure of \$(1,999) million relates to amounts paid in connection with the demerger and other corporate transactions in the year, including the redemption of subordinated debt in the first half of 2019. Further information is contained in note 1(iii) of the Additional unaudited financial information.

As highlighted in my report for the first half of 2019, holding company cash was expected to reduce in the second half of 2019. Cash and short-term investments totalled \$2.2 billion at the end of the year (2018: \$4.1 billion on an actual exchange rate basis), commensurate with the reduced size of the Group post-demerger. The Group will seek to manage its financial condition such that it has sufficient resources available to provide a buffer to support the retained businesses in stress scenarios and to provide liquidity to service central outflows.

Shareholders' funds

	IFRS		EEV	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Adjusted operating profit after tax and non-controlling interests from continuing operations⁹	4,528	3,739	6,896	7,862
Profit after tax for the year⁹	783	4,019	(645)	6,122
Exchange movements, net of related tax	2,943	(714)	666	(1,574)
Unrealised gains and losses on US fixed income securities classified as available-for-sale	2,679	(1,446)	-	-
Demerger dividend in specie of M&G plc	(7,379)	-	(7,379)	-
Other dividends	(1,634)	(1,662)	(1,634)	(1,662)
Mark-to-market value movements on Jackson assets backing surplus and required capital	-	-	206	(127)
Other	117	9	95	176
Net increase (decrease) in shareholders' funds	(2,491)	206	(8,691)	2,935
Shareholders' funds at beginning of the year	21,968	21,762	63,402	60,467
Shareholders' funds at end of the year	19,477	21,968	54,711	63,402
Shareholders' value per share^{10,11}	749¢	847¢	2,103¢	2,445¢

Group IFRS shareholders' funds in the 12 months to 31 December 2019 decreased by 11 per cent to \$19.5 billion (31 December 2018: \$22.0 billion on an actual exchange rate basis) principally as a result of the demerger of M&G plc which reduced shareholders' funds by \$(7.4) billion. Excluding this effect, shareholders' funds increased by \$4.9 billion primarily as a result of profit after tax from continuing businesses of \$1.9 billion, profit generated by M&G plc up to the date of demerger of \$1.3 billion and unrealised gains on fixed income securities of Jackson of \$2.7 billion following a decrease in US long-term interest rates. These amounts were offset by dividends paid in the year of \$(1.6) billion.

The total return from continuing operations (including other comprehensive income) on Group's closing shareholders' funds for the year was 27 per cent¹², after excluding items arising from the demerger of \$528 million (being costs of undertaking the demerger and interest). The demerger alters the size of the Group's shareholders' equity and the nature of its operations, rendering a comparison with the prior year return on shareholders' funds value unrepresentative.

The Group's EEV basis shareholders' funds at 31 December 2019 was \$54.7 billion. This compares with \$46.1 billion at 31 December 2018 if the \$17.3 billion in respect of the UK & Europe operations is excluded. The growth over the year is primarily driven by EEV profit from continuing operations of \$4.2 billion, total inter-group dividends from M&G plc in the period before demerger of \$5.5 billion less external dividends of \$(1.6) billion. On a per share basis, the Group's embedded value at 31 December 2019 equated to 2,103 cents. More information on the Group's EEV results are included in the segmental detail that follows.

Free surplus generation from continuing operations¹³

Free surplus generation is the financial metric we use to measure the internal cash generation of our business operations and is based (with adjustments) on the capital regimes that apply locally in the various jurisdictions in which the Group operates. For life insurance operations, it represents amounts emerging from the in-force business during the year, net of amounts reinvested in writing new business. For asset management businesses, it equates to post-tax adjusted operating profit for the year.

Operating free surplus generated from continuing operations before the adjustments to reflect hedge modelling changes and restructuring costs increased to \$3.8 billion (2018: \$3.5 billion¹). This was after \$(1,158) million of investment in new business (2018: \$(946) million¹).

Asia operating free surplus generation¹⁴ increased by 13 per cent to \$1,772 million in line with business growth, higher asset management earnings and stable levels of new business investment.

US operating free surplus generation before the 2019 hedge modelling changes was \$2,028 million (2018: \$1,895 million) with the increase from in-force business, including a one-off benefit from the integration of the John Hancock business, offset by higher new business investment. As part of the implementation of the NAIC's changes to the US statutory reserve and capital framework enhancements were made to the model used to allow for hedging within US statutory reporting. As a consequence, the Group has chosen to utilise this new model within its EEV results, resulting in a \$3.2 billion reduction in Jackson's EEV at the start of the year and a subsequent fall in operating free surplus of \$(903) million from a lower expected transfer to net worth. Further information is included in the US segmental discussion and in the EEV basis results. After allowing for this effect and restructuring costs, operating free surplus generation for the Group was down 16 per cent to \$2,861 million.

Analysis of movement in free surplus for insurance and asset management operations¹³

	Actual exchange rate			Constant exchange rate	
	2019 \$m	2018 \$m	Change %	2018 \$m	Change %
Operating free surplus generated before restructuring costs and US EEV hedge modelling enhancements	3,800	3,458	10	3,462	10
Restructuring costs	(36)	(48)	25	(47)	23
Operating free surplus generated before US EEV hedge modelling enhancements	3,764	3,410	10	3,415	10
Impact of 2019 US EEV hedge modelling enhancements	(903)	-	n/a	-	n/a
Operating free surplus generated	2,861	3,410	(16)	3,415	(16)
Non-operating (loss) profit	(568)	(1,649)			
Net cash flows paid to parent company	(1,475)	(1,368)			
Foreign exchange movements on foreign operations, timing differences and other items	(172)	(991)			
Total movement in free surplus from continuing operations	646	(598)			
Free surplus at 1 January from continuing operations	5,351	5,949			
Free surplus at 31 December from continuing operations	5,997	5,351			
Analysis of operating free surplus generated from in-force life business and asset management before restructuring costs and US EEV hedge modelling enhancements:					
Asia	1,772	1,563	13	1,567	13
US	2,028	1,895	7	1,895	7
Total	3,800	3,458	10	3,462	10

Dividend

The Board has approved a 2019 second interim ordinary dividend of 25.97 cents per share, equivalent to the 19.60 pence per share previously indicated in the demerger Circular.

The Board considers dividends to be an important component of total shareholder return and adopted a progressive dividend policy for the Group following the demerger. The level of dividend growth will be determined after taking into account the Group's capital generation capacity, financial prospects and investment opportunities, as well as market conditions. The Group's 2020 dividend under the new progressive dividend policy will be determined from a 2019 US dollar base of \$958 million¹⁵ (36.84 cents per share), equivalent to the circa £750 million previously disclosed in the Circular. This policy is expected to result, over the medium term, in future central outflows ie dividends, debt interest costs and other central expenses (including central payments for bancassurance distribution agreements and restructuring costs) net of tax recoverables, being covered by remittances from business units.

The Board intends to maintain the Group's existing formulaic approach to first interim dividends, which are calculated as one-third of the previous year's full-year dividend.

Asia

Operational and financial highlights

Our 2019 Asia financial results reflect the benefits of our diverse and well-positioned portfolio across the Asia region, the resilience of the longer-term growth drivers in these markets, our long-held prioritisation of high quality, recurring premium life insurance business and focused execution on our key strategic priorities.

This is reflected in diversified growth, with 10 markets expanding new business profit and our Asia ex-Hong Kong businesses growing new business profit by 29 per cent. Our earnings continue to be supported by high quality drivers with a 14 per cent increase in insurance margin, underpinned by our protection propositions for customers, alongside 18 per cent growth in asset management earnings, helped by a 15 per cent increase in average funds under management. This led to a 14 per cent increase in overall Asia adjusted operating profit with eight insurance markets delivering double-digit growth. These drivers are also reflected in the EEV operating profit of \$6,138 million (2018: \$6,052 million¹), driving a 23 per cent increase in embedded value to \$39.2 billion. At the same time, a 13 per cent increase in operating free surplus generation¹⁴ supported a higher cash remittance of \$950 million for the year.

	Actual exchange rate			Constant exchange rate	
	2019 \$m	2018 \$m	Change %	2018 \$m	Change %
New business profit	3,522	3,477	1	3,460	2
Adjusted operating profit*	3,276	2,888	13	2,872	14
EEV operating profit*	6,138	6,070	1	6,052	1
Operating free surplus generation*	1,772	1,563	13	1,567	13

*Before restructuring costs

New business performance

Life EEV new business profit and APE new business sales (APE sales)

	Actual exchange rate						Constant exchange rate					
	2019 \$m		2018 \$m		Change %		2018 \$m		Change %			
	APE sales	New business profit	APE sales	New business profit	APE sales	New business profit	APE sales	New business profit	APE sales	New business profit		
Hong Kong	2,016	2,042	2,266	2,309	(11)	(12)	2,268	2,310	(11)	(12)		
China JV	590	262	403	199	46	32	386	190	53	38		
Indonesia	390	227	315	163	24	39	316	163	23	39		
Other life insurance markets	2,165	991	2,015	806	7	23	1,989	797	9	24		
Total Asia	5,161	3,522	4,999	3,477	3	1	4,959	3,460	4	2		
Total Asia excluding Hong Kong	3,145	1,480	2,733	1,168	15	27	2,691	1,150	17	29		
Total new business margin	68%		70%				70%					

Life insurance new business APE sales increased by 4 per cent to \$5,161 million and related **new business profit** increased by 2 per cent with eight markets achieving double-digit growth in new business profit.

Lower levels of APE sales and new business profit in Hong Kong (down 11 and 12 per cent respectively) were more than offset by higher overall APE sales and new business profit in markets outside Hong Kong (up 17 and 29 per cent respectively). Our Asia ex-Hong Kong businesses accelerated strongly, as new APE sales growth steadily increased throughout the year, with 11 per cent growth in the first quarter rising to 26 per cent growth in the fourth quarter.

We continue to favour health and protection products due to their resilience to market cycles and superior margins. Collectively, such products achieved new business profit growth of more than 20 per cent outside Hong Kong and produced 67 per cent of our overall Asia new business profit in 2019. This also contributed to our high mix of regular premiums, which comprised 93 per cent of our APE sales in 2019.

Our partnerships also made encouraging progress last year. The bancassurance channel achieved APE sales growth of 14 per cent, with particularly strong performances in our China joint venture and Vietnam and 24 per cent growth from UOB following the renewal of the strategic partnership at the beginning of the year.

In **Hong Kong**, our domestic business was resilient with new product launches and focused management actions leading to an 8 per cent increase in local APE sales. This was supported by strong take-up of our new qualified deferred annuity product which accounted for 11 per cent of our Hong Kong APE sales since its launch on 1 April 2019 as well as our VHIS plans, both of which are eligible for tax incentives that were newly introduced by the government. Our Hong Kong life insurance business serves the health and savings needs of both domestic as well as visiting mainland Chinese consumers. The social unrest drove a decline in mainland Chinese visitors in the second half of 2019 inhibiting sales to this segment which led to a 41 per cent reduction in related APE sales compared with the second half of 2018, and to a 21 per cent reduction in APE sales over the year as a whole. Overall Hong Kong APE sales and new business profit were 11 and 12 per cent lower respectively.

In our **China JV**, APE sales were 53 per cent higher at \$590 million. This growth reflects a strong performance by both our agency and bancassurance channels with the latter reflecting the success of our strategy to drive increased branch activation. Higher volumes helped deliver an increase in new business profit by 38 per cent.

In **Indonesia**, the benefits of a recent restructuring of our agency channel and successful new product launches supported a 23 per cent increase in APE sales and this growth accelerated to 41 per cent in the second half from 4 per cent in the first half. The 39 per cent increase in new business profit reflected the benefit of increased volumes, as well as operational improvements from new product launches in the year.

The broad-based performance of our other life insurance markets led to a 9 per cent increase in related new sales, with particularly strong growth in the **Philippines** (34 per cent higher), while shifting towards higher-margin health and protection products. The 24 per cent increase in new business profit contribution from our other life markets is driven by higher new sales volumes, favourable assumption changes and modelling enhancements.

EEV basis results

	Actual exchange rate			Constant exchange rate	
	2019 \$m	2018 \$m	Change %	2018 \$m	Change %
New business profit	3,522	3,477	1	3,460	2
Business in force	2,366	2,381	(1)	2,383	(1)
Operating profit from long-term business	5,888	5,858	1	5,843	1
Asset management	250	212	18	209	20
Operating profit from long-term business and asset management before restructuring costs	6,138	6,070	1	6,052	1
Restructuring costs	(31)	(25)	(24)	(24)	(29)
Non-operating profit (loss)	1,962	(1,235)	259	(1,232)	259
Profit for the year	8,069	4,810	68	4,796	68
Other movements	(842)	(1,681)			
Net increase (decrease) in embedded value	7,227	3,129			
Embedded value at 1 January	32,008	28,879			
Embedded value at 31 December	39,235	32,008			
% New business profit / closing embedded value	9%	11%			
% Operating profit / closing embedded value	16%	19%			

Asia EEV operating profit increased marginally compared with the prior period to \$6,138 million (2018: \$6,052 million¹), driven by the 2 per cent increase in life new business profit, balanced by a 1 per cent reduction in the contribution from in-force life business.

The development of the in-force life result of \$2,366 million (2018: \$2,383 million¹) reflects a 4 per cent reduction in the expected return, partly offset by higher, favourable operating assumption changes and experience development. Under our active EEV assumption framework, the lower expected return is a function of lower period end interest rates leading to lower period end risk discount rates. These lower risk discount rates are applied to the opening embedded value in this analysis, and result in a lower expected return compared with the prior period, only partly offset by a higher starting embedded value position. Operating assumption and experience developments were positive at \$824 million (2018: \$769 million¹) and are driven by favourable persistency and mortality/morbidity effects among other factors, and again reflect the high quality of our in-force life business.

The asset management segment operating profit after tax increased by 20 per cent to \$250 million (2018: \$209 million¹), which is discussed in more detail below.

Non-operating profit was \$1,962 million (2018: \$(1,232) million¹), mainly reflecting higher than assumed equity and fixed income returns in the period, partly offset by the effect of lower period end interest rates leading to a reduction in future assumed investment returns, among other factors.

Overall Asia segment embedded value increased by 23 per cent to \$39.2 billion (2018: \$32.0 billion). Of this, \$37.8 billion (2018: \$31.0 billion) relates to the value of the long-term business. The remainder represents Asia asset management and goodwill which are carried at IFRS net asset value under the EEV framework.

Asia analysis of movement in free surplus¹³

	Actual exchange rate			Constant exchange rate	
	2019 \$m	2018 \$m	Change %	2018 \$m	Change %
Operating free surplus generated from in-force life business and asset management before restructuring costs	2,391	2,215	8	2,213	8
Investment in new business	(619)	(652)	5	(646)	4
Operating free surplus generated before restructuring costs	1,772	1,563	13	1,567	13
Restructuring costs	(31)	(25)	(24)	(24)	(29)
Operating free surplus generated	1,741	1,538	13	1,543	13
Non-operating (loss) profit	1,195	(525)			
Net cash flows paid to parent company	(950)	(916)			
Foreign exchange movements on foreign operations, timing differences and other items	(357)	(847)			
Total movement in free surplus	1,629	(750)			
Free surplus at 1 January	2,591	3,341			
Free surplus at 31 December	4,220	2,591			

Overall Asia operating free surplus generated¹⁴, after investment in new business, was \$1,772 million, an increase of 13 per cent compared with the prior period, driven by higher in-force generation and a lower level of investment in new business. The 8 per cent increase in the in-force return reflects growth in the in-force life portfolio, favourable operating experience effects and strong growth in asset management earnings, which more than offsets less favourable economic effects. The level of investment in new business reduced by 4 per cent, despite higher new sales, and reflects the net impact of assumption changes and various country and business mix effects. In turn, this growth in operating free surplus generation supported an increased net cash remittance of

\$950 million for the year (2018: \$916 million). Non-operating profit of \$1,195 million mainly relates to the net effect of bond and equity gains across most Asia markets.

Local statutory capital

We maintained a resilient balance sheet with a robust shareholder LCSM surplus of \$4.7 billion and coverage ratio of 253 per cent at 31 December 2019 (31 December 2018: \$3.6 billion and 244 per cent) supported by our expertise in risk management and a conservative approach to credit risk. We seek to safeguard our business from market volatility through our strong focus on protection products and our prudent asset and liability management strategy, which continues to be well-matched by both currency and duration. This is demonstrated by the relatively low sensitivity of our new business profit and our embedded value to a wide range of capital market fluctuations.

IFRS earnings

Overall, Asia adjusted operating profit increased by 14 per cent to \$3,276 million, with life insurance earnings up 14 per cent and asset management earnings up 18 per cent. Our Asia life insurance earnings growth is broad-based and at scale, reflecting the benefits of our focus on high quality recurring premium business and well diversified business portfolio. 86 per cent¹⁶ of our total life income (excluding other income described below) arises from insurance margin and fee income, again supporting stable profit progression across market cycles.

Overall, eight insurance markets reported double-digit growth, with five delivering growth of 20 per cent or more. Six markets delivered annual adjusted operating profit of above \$200 million and three in the region of \$500 million or higher. At a market level, highlights include Hong Kong (up 24 per cent) driven by the high quality of its in-force growth, China JV (up 20 per cent), Vietnam (up 20 per cent) and the Philippines (up 26 per cent). Adjusted operating profit in Indonesia of \$540 million remains at a high level, but was 3 per cent below the prior period.

Profit margin analysis of Asia long-term insurance and asset management operations¹⁷

	Actual exchange rate				Constant exchange rate	
	2019		2018		2018	
	\$m	Margin bps	\$m	Margin bps	\$m	Margin bps
Spread income	321	108	310	125	305	124
Fee income	286	105	280	106	277	106
With-profits	107	18	95	20	94	20
Insurance margin	2,244		1,978		1,966	
Other income	3,229		2,982		2,962	
Total life income	6,187		5,645		5,604	
Expenses:						
Acquisition costs	(2,156)	(42)%	(2,007)	(40)%	(1,991)	(40)%
Administration expenses	(1,437)	(252)	(1,374)	(269)	(1,359)	(268)
DAC adjustments	430		435		430	
Share of related tax charges from joint ventures and associates	(31)		(53)		(51)	
Long-term insurance business pre-tax adjusted operating profit	2,993		2,646		2,633	
Eastspring	283		242		239	
Adjusted operating profit from long-term business and asset management before restructuring costs	3,276		2,888		2,872	
Tax charge	(436)		(411)		(408)	
Adjusted operating profit after tax for the year before restructuring costs	2,840		2,477		2,464	
Non-operating profit after tax	885		(662)		(665)	
Profit for the year after tax before restructuring costs	3,725		1,815		1,799	

Our earnings continue to be based on high-quality drivers. The overall 14 per cent growth in Asia life insurance adjusted operating profit to \$2,993 million (2018: \$2,633 million¹) was driven principally by 14 per cent growth in insurance margin related revenues and reflects our ongoing focus on recurring premium health and protection products and the associated continued growth of our in-force business. Renewal premiums¹⁰, reflecting the long-term nature of our insurance business, grew 12 per cent.

Fee income increased by three per cent, broadly in line with the increase in average unit-linked liabilities, while spread income rose by five per cent given changes in product and geographical mix and lower interest rates in the period.

With-profits earnings relate principally to the shareholders' share in bonuses declared to policyholders. As these bonuses are typically weighted to the end of a contract, under IFRS, with-profit earnings consequently emerge only gradually over time. The 14 per cent growth in with-profits earnings reflects the ongoing growth in these portfolios.

Other income primarily represents amounts deducted from premiums to cover acquisition costs and administration expenses. As such, the 9 per cent increase in margin on revenues largely reflects ongoing business growth and the associated continued growth in overall premiums received. Acquisition costs borne by shareholders increased by 8 per cent in relation to a 4 per cent increase in overall APE sales. The ratio of shareholder acquisition costs to shareholder related APE sales (excluding with-profits related sales) reduced to 66 per cent (2018: 69 per cent on an actual exchange rate) as a result of changes in product mix. Administration expenses, including renewal commissions, increased by 6 per cent reflecting ongoing business growth.

Asset Management

	Actual exchange rate		Change %
	2019 \$m	2018 \$m	
Total external net flows	8,909	(2,118)	n/a
External funds under management (\$bn)	124.7	77.8	60
Internal funds under management (\$bn)	116.4	114.9	1
Total funds under management (\$bn)	241.1	192.7	25
Analysis of adjusted operating profit			
Retail operating income	392	336	17
Institutional operating income	244	230	6
Operating income before performance related fees	636	566	12
Performance-related fees	12	23	(48)
Operating income (net of commission)	648	589	10
Operating expense	(329)	(311)	(6)
Group's share of tax on joint ventures' adjusted operating profit	(36)	(36)	-
Adjusted operating profit	283	242	17
Adjusted operating profit post-tax	250	212	18
Average funds managed by Eastspring			
Margin based on operating income	\$214.0bn	\$186.3bn	15
Cost/income ratio ¹⁰	30bps	30bps	-
	52%	55%	(3)ppts

Eastspring delivered a strong performance in 2019 reflecting positive operating momentum and the benefit of recent acquisitions. Overall funds under management of \$241.1 billion and adjusted operating profit of \$283 million, are at record levels.

The increase in external funds under management to \$124.7 billion (2018: \$77.8 billion) reflected \$8.9 billion¹⁸ (2018: \$(2.1) billion¹⁸) in positive third-party net flows, favourable market performance and \$7.5 billion from the TFUND acquisition in December 2019. In addition, following the demerger of M&G plc, \$26.7 billion of M&G related assets have been reclassified to external from internal funds under management.

Third party net inflows were positive in both retail and institutional products and across both equity and fixed income funds, reflecting the benefit of new products and mandates. Overall funds under management were also supported by continued positive internal net flows resulting in total funds under management of \$241.1 billion at year end (2018: \$192.7 billion on an actual exchange rate basis).

An increase in average funds managed by Eastspring of 15 per cent² resulted in adjusted operating profit rising by 18 per cent (up 17 per cent on an actual exchange rate basis) to \$283 million and growth in operating income of 10 per cent². Disciplined cost management has led to an improvement in its cost-income ratio¹⁰ to 52 per cent (2018: 55 per cent on an actual exchange rate basis), with operating expenses increasing at a slower rate of 8 per cent (6 per cent on an actual exchange rate basis).

Return on segment equity

Asia return on closing IFRS shareholders' funds

	2019	2018
Operating return on closing shareholders' funds (%)	26	30
Total comprehensive return on closing shareholders' funds (%)	36	20

The benefit of our focus on profitable and capital efficient health and protection, with-profit and asset management businesses is evident in the attractive 26 per cent (2018: 30 per cent) return delivered on closing segment equity over 2019.

United States

Operational and financial highlights

The financial performance of the US business in the period reflects the impact of the execution of the first steps of its strategic diversification together with the varying financial effects of strong US equity market performance and lower interest rates in the period. We have decided to adopt early as at 31 December 2019 the new National Association of Insurance Commissioners (NAIC) capital rules related to variable annuities and have made consequential updates to our EEV basis results. All of the results below reflect the whole US segment, except for the discussion on local statutory capital which covers Jackson National Life only.

	2019 \$m	2018 \$m	Change %
New business profit	883	1,230	(28)
Adjusted operating profit*	3,070	2,563	20
EEV operating profit*	1,782	2,828	(37)
Jackson RBC ratio (%)	366	458	(92) ppts

*Before restructuring costs

New business performance

Life EEV new business profit and APE new business sales (APE sales)

	2019 \$m	2018 \$m	Change %
Variable annuities	1,270	1,443	(12)
Elite Access (variable annuity)	200	225	(11)
Fixed annuities	119	46	159
Fixed index annuities	382	33	1,058
Wholesale	252	312	(19)
Total APE sales	2,223	2,059	8
% APE variable annuities	66	81	(15)
% APE other products	34	19	15
Total new business profit	883	1,230	(28)
New business margin	40%	60%	

Overall new US APE sales increased to \$2,223 million (2018: \$2,059 million), with the proportion of general account products (fixed annuities, fixed index annuities and wholesale business) at 34 per cent (2018: 19 per cent) of new sales reflecting our intention to diversify our product mix over time to balance the overall risk profile of Jackson better. This was supported by new product launches and additional distribution initiatives. New business profit was lower at \$883 million (2018: \$1,230 million). Of this \$(347) million reduction, \$(155) million is a result of lower interest rates and other changes in economic assumptions compared with the prior period. The remainder reflects the change in product mix and other assumption change impacts.

Movement in policyholder liabilities

	2019 \$m		2018 \$m	
	Separate account liabilities and other liabilities	General account liabilities	Separate account liabilities and other liabilities	General account liabilities
At 1 January	163,301	73,079	176,578	67,905
Premiums	12,776	8,200	14,646	3,967
Surrenders	(12,767)	(4,575)	(11,746)	(4,465)
Maturities/deaths	(1,564)	(1,823)	(1,449)	(1,238)
Net flows	(1,555)	1,802	1,451	(1,736)
Addition for closed block of group pay-out annuities in the US	-	-	-	5,532
Transfers from general to separate account	951	(951)	708	(708)
Investment-related items and other movements	32,373	549	(15,436)	2,086
At 31 December	195,070	74,479	163,301	73,079

Overall US net flows were \$0.2 billion over the year (2018: \$(0.3) billion). Separate account net flows were negative at \$(1.6) billion (2018: positive \$1.5 billion), reflecting lower new sales of variable annuities in the period and expected higher levels of surrenders as the in-force book develops. Investment related movements reflect favourable investment performance driven by strong capital market returns. General account net flows were \$1.8 billion (2018: \$(1.7) billion), driven by higher new sales in the period. Total year-end policyholder liabilities were \$269.5 billion (2018: \$236.4 billion), with separate account liabilities at \$195.1 billion and general account and other liabilities at \$74.5 billion.

IFRS earnings

Profit margin analysis of US long-term insurance and asset management operations¹⁷

	2019		2018	
	\$m	Margin bps	\$m	Margin bps
Spread income	642	112	778	155
Fee income	3,292	182	3,265	183
Insurance margin	1,317		1,267	
Other income	26		14	
Total life income	5,277		5,324	
Expenses:				
Acquisition costs	(1,074)	(48)%	(1,013)	(49)%
Administration expenses	(1,675)	(68)	(1,607)	(69)
DAC adjustments	510		(152)	
Long-term insurance business pre-tax adjusted operating profit	3,038		2,552	
Asset management	32		11	
Adjusted operating profit from long-term business and asset management before restructuring costs	3,070		2,563	
Tax charge	(437)		(402)	
Adjusted operating profit after tax for the year before restructuring costs	2,633		2,161	
Non-operating profit after tax	(3,013)		(179)	
(Loss) profit for the year after tax before restructuring costs	(380)		1,982	

Adjusted operating profit

US long-term adjusted operating profit was \$3,038 million (2018: \$2,552 million), and reflects the benefit of favourable market-related DAC adjustments in the period compared with unfavourable DAC adjustments in the prior period.

Fee income was marginally higher compared with the prior period, with the benefit of a 2 per cent increase in average separate account balances largely offset by a modest decline in the average fee margin¹⁷.

Spread income declined to \$642 million (2018: \$778 million) reflecting the combination of lower core spread income and lower income derived from swaps held for duration management purposes. The development of the core spread income was driven by the effect of lower invested asset yields and the full consolidation of the assets acquired with the John Hancock transaction towards the end of 2018, resulting in a reduction in the spread margin to 112 basis points (2018: 155 basis points).

Insurance margin primarily represents income from variable annuity guarantees and profits from legacy life businesses. This increased by 4 per cent to \$1,317 million (2018: \$1,267 million) mainly as a result of higher income from variable annuity guarantees.

Acquisition costs increased by 6 per cent, broadly in line with the 8 per cent increase in new APE sales. Administrative expenses increased from \$(1,607) million in 2018 to \$(1,675) million in 2019, primarily as a result of higher asset-based commissions. Excluding these asset-based commissions, the resulting administration expense ratio would be 33 basis points (2018: 34 basis points).

DAC adjustments, being the cost deferred on sales in the period net of amortisation of amounts deferred previously, of \$510 million (2018: \$(152) million) were favourable compared with the prior period, in part due to higher sales in the period. Over 2019, strong capital market returns resulted in a separate account investment performance materially in excess of that assumed within the DAC mean reversion formula which led to a favourable DAC deceleration effect of \$280 million (2018: unfavourable DAC acceleration effect of \$(259) million).

Non-operating items

The non-operating result was negative \$(3,795) million pre-tax (2018: negative \$(241) million pre-tax) and contributed to a net loss after tax of \$(380) million (2018: net income \$1,982 million).

In the US, Jackson provides certain guarantees on its annuity products, the value of which would typically rise when equity markets fall and long-term interest rates decline. Jackson charges fees for these guarantees which are in turn used to purchase downside protection, in particular options and futures to mitigate the effect of equity market falls. Under IFRS, accounting for the movement in the valuation of these derivatives, which are all fair valued, is asymmetrical to the movement in guarantee liabilities, which are not fair valued in all cases. Jackson designs its hedge programme to protect the economics of the business from large movements in investment markets and accepts the variability in accounting results. Non-operating losses of \$(3,795) million in the year mainly reflect the effect of lower interest rates on guarantee liabilities and the impact of higher equity markets on both guarantee liabilities and associated derivatives given that the S&P 500 index ended the year 28.9 per cent higher than at the start of the year. While the resulting negative mark-to-market movements on these hedging instruments are recorded in the current year, the related increases in fee income that arise from the higher asset values managed, will be recognised and reported in future years.

In addition to the effects seen above, falling interest rates resulted in gains of \$2.7 billion being recognised outside the income statement on bonds held by Jackson's general account. In total, Jackson's segment shareholders' funds increased to \$8,929 million (2018: \$7,163 million).

EEV basis results

	2019 \$m	2018 \$m	Change %
New business profit	883	1,230	(28)
Business in force	874	1,594	(45)
Operating profit from long-term business	1,757	2,824	(38)
Asset management	25	4	525
Operating profit from long-term business and asset management before restructuring costs	1,782	2,828	(37)
Restructuring costs	(5)	(23)	78
Non-operating loss	(3,802)	(1,695)	(124)
Profit for the year	(2,025)	1,110	(282)
Other movements (including dividends)	(342)	(654)	
Net increase (decrease) in embedded value	(2,367)	456	
Embedded value at 1 January	18,709	18,253	
Embedded value at 31 December	16,342	18,709	
% New business profit / closing embedded value	5%	7%	
% Operating profit / closing embedded value	11%	15%	

EEV operating profit from the long-term business reduced to \$1,757 million (2018: \$2,824 million) reflecting lower new business profit in the period and a reduction in the level of expected return on business in force.

During 2019, following the implementation of the NAIC's changes to the US statutory reserve and capital framework, enhancements were made to the model used to allow for hedging within US statutory reporting. As a consequence, the Group has chosen to utilise the model for its EEV reporting to update its allowance for the long-term cost of hedging, resulting in a \$(3,233) million reduction in Jackson's EEV at the start of the year.

The reduction in expected return from business in force reflects lower period end interest rates which reduce the expected unwind, and a lower starting balance of EEV shareholders' funds compared with the prior period. This is a function of weak equity markets in the fourth quarter of 2018, and the adoption of a new hedge model as discussed above.

The EEV non-operating loss of \$(3,802) million mainly includes negative \$(3,233) million from the adoption of the new hedging model (as discussed above), and negative \$(1,201) million from economic effects, offset by positive \$876 million from favourable investment movements.

The investment return variances are driven by the benefit of strong capital market performance in the period leading to separate account returns materially in excess of those assumed, more than offsetting hedging losses on instruments held for risk management purposes.

Economic assumption changes of \$(1,201) million largely reflect the impact of lower interest rates in the period on the projected future fund growth rates for the variable annuity business. These projected lower growth rates reduce the expected growth in fund values for policyholders and hence the expected profitability for shareholders.

Overall segment embedded value ended the year at \$16.3 billion (2018: \$18.7 billion).

US analysis of movement in free surplus¹³

	2019 \$m	2018 \$m	Change %
Operating free surplus generated from in-force life business and asset management before restructuring costs and EEV hedge modelling enhancements	2,567	2,195	17
Investment in new business	(539)	(300)	(80)
Operating free surplus generated before restructuring costs and EEV hedge modelling enhancements	2,028	1,895	7
Restructuring costs	(5)	(23)	78
Operating free surplus generated before EEV hedge modelling enhancements	2,023	1,872	8
Impact of 2019 EEV hedge modelling enhancements	(903)	-	-
Operating free surplus generated	1,120	1,872	(40)
Non-operating (loss) profit	(1,763)	(1,124)	
Net flows paid to parent company	(525)	(452)	
Timing differences and other items	185	(144)	
Total movement in free surplus	(983)	152	
Free surplus at 1 January	2,760	2,608	
Free surplus at 31 December	1,777	2,760	

The US in-force business generated \$2,567 million (2018: \$2,195 million) prior to allowing for the change to the allowance for hedging costs discussed above. This included a \$355 million benefit following the integration of the John Hancock business acquired in 2018. Offsetting this increase was a higher investment in new business (up 80 per cent to \$(539) million). The increase in investment in new business to \$(539) million (2018: \$(300) million) is a function of a higher weight of general account new sales in the period.

Operating free surplus generated¹⁴ after allowing for the impact of changes to hedge modelling was \$1,120 million.

Non-operating assumptions and variances related to free surplus development were \$(1,763) million (2018: \$(1,124) million) and reflect higher losses on hedge instruments compared with those assumed under the new basis. Circa \$395 million of these hedge

losses were incurred in managing the risk profile of the business as Jackson transitioned from the previous US statutory and reserving framework to the new framework following updates made by the NAIC which is further discussed below.

Local statutory capital – Jackson National Life (Jackson)

Jackson applies the US statutory reserve and capital framework required by the NAIC and adopted the NAIC's changes to this framework for variable annuities with effect from 31 December 2019. This new capital methodology incorporates a unified approach to reserving and required capital determination. In addition, with effect from 1 October 2019, Jackson chose not to renew its long-standing permitted practice to exclude unrealised gains on certain derivative instruments taken out to protect Jackson against declines in long-term interest rates.

After adopting this new regime, the surplus of available capital over required capital (set at 100 per cent of the Company Action Level) was \$3,795 million. This equated to a risk-based capital ratio of 366 per cent (2018: 458 per cent using the previous NAIC framework). An analysis of the estimated movement in Jackson's risk-based capital position over 2019 is set out below. Jackson continues to remain within its existing risk appetite and expects the new capital regime to result in a more stable RBC ratio than under the previous regime, in low interest rate scenarios.

	Total available capital \$m	Required capital \$m	Surplus \$m	Ratio %
1 January 2019	5,519	1,204	4,315	458
Capital generation from new business written during 2019	119	263	(144)	(75)
Operating capital generation from business in force at 1 January 2019*	1,406	(125)	1,531	141
Operating capital generation	1,525	138	1,387	66
Adoption of NAIC reforms (see above)	279	137	142	(17)
Other non-operating movements, including market effects and removal of the permitted practice	(1,577)	(53)	(1,524)	(104)
Dividends paid	(525)	-	(525)	(37)
31 December 2019	5,221	1,426	3,795	366

*Includes operating experience variances and the impact of John Hancock

Over the period, statutory operating capital generation of \$1.4 billion increased the RBC ratio by 66 percentage points, comprising 118 percentage points (\$1.2 billion) from in-force capital generation, reduced by 75 percentage points (\$0.1 billion) for the capital strain of writing new business, and 23 percentage points (\$0.3 billion) of one-off benefits related to the recent John Hancock acquisition. In line with the product diversification strategy previously outlined and Jackson's accelerated sales growth of fixed index and new fixed annuity products, the capital strain from selling non-VA products was 64 percentage points of the total 75 percentage points of new business strain.

Non-operating and other capital movements reduced the RBC ratio by 121 percentage points (\$1.4 billion) due to:

- adoption of the new capital regime at 31 December 2019, resulting in a one-off reduction in the RBC ratio of 17 percentage points;
- one-off hedge losses in respect of managing through the changeover to the new regime representing a 28 percentage point fall in the RBC ratio;
- an increase in deferred tax assets not admitted as statutory capital, which reduced the RBC ratio by 26 percentage points, bringing the total non-admitted DTA to \$0.9 billion at 31 December 2019. \$0.5 billion of this non-admitted DTA balance relates to hedge losses incurred in 2019 which are required to be spread over three years for tax purposes and so is expected to be carried forward to be deducted from Jackson's taxable income in the next two years; and
- other non-operating items that reduced the RBC ratio by 50 percentage points, primarily representing variable annuity net hedge losses in the period given asymmetries between the statutory accounting basis and the economics hedged by Jackson.

During 2019 Jackson remitted \$(525) million to Prudential, representing around half of Jackson's operating capital generation in the period (excluding John Hancock effects), which reduced the RBC ratio by 37 percentage points. As previously announced, from 2020 Jackson's remittances are expected to be more evenly spread over the calendar year than in prior periods.

In respect of the previously noted ongoing NAIC review of the C-1 bond factors in the required capital calculation, the expected implementation has been delayed to 2021 or thereafter. After adoption of the new capital regime, the estimated reduction in RBC ratio under the current proposal is circa 10 to 20 points.

Return on segment equity

US return on closing IFRS shareholders' funds.

	2019	2018
Operating return on closing shareholders' funds (%)	29	30
Total comprehensive return on closing shareholders' funds (%)	26	7

The US operating return on segment equity was 29 per cent (2018: 30 per cent). The total comprehensive return on segment equity, including non-operating and other comprehensive income movements, described above, was 26 per cent (2018: 7 per cent).

Notes

- 1 On a constant exchange rate basis.
- 2 On an actual exchange rate basis.
- 3 As compared with 2018 and before a planned \$10 million increase in Africa costs as business grows.
- 4 Approximately half of the corporate expenditure is incurred in sterling and our assumptions forecast an exchange rate of £1=\$1.2599.
- 5 From 1 January 2021.
- 6 Surplus over Group minimum capital requirement and estimated before allowing for second interim ordinary dividend. Shareholder business excludes the available capital and minimum requirement of participating business in Hong Kong, Singapore and Malaysia. Further information on the basis of calculation of the LCSM measure is contained in note I(i) of the Additional unaudited financial information.
- 7 Net cash remitted by business units are included in the holding company cash flow, which is disclosed in detail in note I(iii) of the Additional unaudited financial information. This comprises dividends and other transfers from business units that are reflective of emerging earnings and capital generation.
- 8 Using the relevant month-end spot rate.
- 9 Excluding profit for the year attributable to non-controlling interests.
- 10 See note II of the Additional unaudited financial information for definition and reconciliation to IFRS balances.
- 11 For EEV shareholders' value per share, see note II(x) of the Additional unaudited financial information.
- 12 See note I(iii) of the Additional unaudited financial information for the basis of calculation.
- 13 For insurance operations, operating free surplus generated represents amounts maturing from the in-force business during the period less investment in new business and excludes non-operating items. For asset management businesses, it equates to post-tax operating profit for the period. Restructuring costs are presented separately from the operating business unit amount. Further information is set out in note 11 of the EEV basis results.
- 14 Operating free surplus generated before restructuring costs.
- 15 The pro forma dividend for 2019 of the \$958 million represents the first interim ordinary dividend paid of \$528 million (£428 million based on spot exchange rate at the payment date) plus the second interim ordinary dividend of \$675 million (£510 million based on spot rate at 31 December 2019) less the contribution of remittances from the discontinued M&G plc business to the second interim ordinary dividend of \$245 million (£185 million based on spot exchange rates at 31 December 2019).
- 16 Total insurance margin (\$2,244 million) and fee income (\$286 million) of \$2,530 million divided by total life income excluding other income of \$2,958 million (Comprised of total life income of \$6,187 million less other income of \$3,229 million).
- 17 For discussion on the basis of preparation of the sources of earnings in the table see note I(iv) of the Additional unaudited financial information.
- 18 Excludes Money Market Funds.

Group Chief Risk and Compliance Officer's report on the risks facing our business and how these are managed

Our Group Risk Framework and risk appetite have allowed us to control our risk exposure successfully throughout the year. Our governance, processes and controls enable us to deal with uncertainty effectively, which is critical to the achievement of our strategy of helping our customers achieve their long-term financial goals.

This section explains the main risks inherent in our business and how we manage those risks, with the aim of ensuring an appropriate risk profile is maintained.

1. Introduction

Group structure

On 21 October 2019, just 18 months after announcing its intention to do so, the Group completed the demerger of M&G plc, marking the successful and controlled delivery of a complex and historic change to the business, in which the Risk function played a central role. An unsettled macroeconomic and geopolitical environment added to the challenges in completing a strategic initiative of this magnitude and to the key objective of delivering two distinct and strongly capitalised groups. Strong stewardship was provided by the Risk function through risk opinions, guidance and assurance on critical activity, as well as assessments and ongoing monitoring of external risks. At the same time, the function retained its focus on managing the risks of the ongoing business performing its defined role in providing risk management support and oversight, as well as objective challenge to ensure the Group remained within its risk appetite.

The Group welcomes the Hong Kong Insurance Authority (IA) as its new Group-wide supervisor and is transitioning to a new supervisory framework. A mature and well-embedded risk framework will enable the repositioned business to capture the opportunities in the growth markets in which it is now focused while operating with discipline.

The world economy

Economic growth worldwide slowed in 2019 driven by a contraction in global manufacturing, in particular in the Eurozone, UK and some Asian economies. Various factors contributed to this slowdown, including geopolitical tensions (in particular those around trade), steps taken in China to deleverage its financial system, and tightened financial conditions in the US during the first half of the year. Faced with the prospect of slowing economic growth and continued subdued inflation, the major central banks across North America, Europe and Asia implemented significant changes in monetary policy, deploying both conventional and non-conventional accommodation. The US Federal Reserve cut its benchmark federal funds rate by 75 basis points over 2019, while the ECB delivered a 10 basis point interest rate cut and announced a resumption of its quantitative easing programme in September. At the start of 2020, the prospects for global growth initially appeared to have improved with the signing of the 'Phase One' initial trade agreement by the US and China in January and signs that macroeconomic data was stabilising throughout the Eurozone and parts of Asia. Since then however, it is becoming increasingly evident that the coronavirus outbreak has impacted economic activity in Hong Kong and China with spill over to the rest of the global economy. This has prompted the world's major central banks to commit to measures to manage the potential economic effects and in early March 2020 the US Federal Reserve cut its benchmark federal funds rate by 50 basis points. This demonstrates the fragility of any improvement in the growth outlook, with geopolitical risks representing another source of potential disruption, including a resurfacing in trade tensions, a resumption of the protests in Hong Kong and, looking forward, political uncertainty that may arise from the US presidential election towards the end of 2020.

Financial markets

After a volatile 2018, which was marked by sharp falls in equity markets in the final quarter, 2019 saw a significant rebound with all major risk assets, particularly global equities, providing strong returns over the course of the year. Government bonds also saw good returns as yields declined significantly, with the US 10-year government bond yield falling by circa 80 basis points over the year. Corporate bonds performed similarly well, with credit spreads tightening and mirroring the strong equity returns observed. The year was largely characterised by relatively defensive investor sentiment and a preference for higher credit quality within asset classes. This positive performance was facilitated by the accommodative environment driven by the shift in monetary policy by major central banks, but came amid a deterioration in macroeconomic indicators, an increase in perceived US recession risk and the trade negotiations between the US and China which ebbed and flowed, all of which negatively impacted global risk sentiment. Political headlines and the monetary policy shift by central banks were the primary drivers of currency market movements during 2019, with the US-China trade negotiations and developments surrounding the UK's departure from the EU impacting the US dollar (in particular the USD-RMB rate) and UK pound respectively. Funding markets came under significant pressure in September when a sudden spike in repo rates was observed, prompting the US Federal Reserve to intervene and inject significant funding through a combination of permanent and temporary open market operations. Global financial markets remain highly susceptible to reversals in risk sentiment, as demonstrated in Q1 2020 with the coronavirus outbreak, which has increased market downside risks significantly.

(Geo)political landscape

The geopolitical landscape over 2019 continued to reflect a world in an unsettled state of transition. Some nations continue to face the challenge of reconciling the inter-connectedness of the global economy with heightened nationalistic sentiment. This has played out in international trade disputes, notably between the US and China during 2019. Increasing polarisation has become a driver of geopolitical risk, both between nations and within them. Populations appear to be increasingly active in voicing and acting collectively on their discontent. 2019 has been described as 'the year of the street protestor' with mass demonstrations having taken place across the world, including in Spain, France, Hong Kong, India and the Middle East over the course of the year and continuing into 2020. A weakening of civil order and domestic disruption are potential consequences, and this is testing the resilience of businesses and governments. As a global organisation, the Group has developed plans to mitigate business risks arising against this backdrop and engages with national bodies where it can in order to ensure its policyholders, employees and other key stakeholders are not adversely impacted.

Regulations

Prudential operates in highly regulated markets, and the nature and focus of regulation and laws remains fluid. A number of national and international regulatory developments are in progress, with a continuing focus on solvency and capital standards, conduct of business, systemic risks and macroprudential policy. Some of these changes will have a significant impact on the way that the Group operates, conducts business and manages its risks. These regulatory developments will continue to be monitored at a national and global level and form part of Prudential's engagement with government policy teams and regulators. In addition to the evolving regulatory landscape, and following the completion of the demerger in October, Prudential's Group-wide supervisor changed, with the Hong Kong IA assuming the role in October 2019. Constructive engagement continues on the Group-wide Supervision Framework (GWS) that will apply to the Group, which is expected to be finalised in 2020.

Societal developments

Increasingly, a strong sense of purpose for an enterprise is being seen as a driver of long-term profitability, and this is making companies evaluate their place in, and contribution to, society. The 'why and how' a business acts has become arguably at least as important as what it produces or the services that it provides. Similarly, understanding and managing the environmental, social and governance (ESG) implications of the Group's business is fundamental to Prudential's brand, reputation and ultimately long-term success. Ensuring high levels of transparency and responsiveness to stakeholders is a key aspect of this. Key social issues with implications for the Group include risks arising from demographic changes as well as those arising from privacy and data security requirements and expectations.

Recent changes in demographic, geographical and environmental factors have driven public health trends, such as obesity, and changed the nature, likelihood and impact of extreme events such as pandemics, with a consequential impact on Prudential's underwriting assumptions and product design. Given the unique set of variables associated with extreme events, past experience is not an indication of the likely impact or ability to deal with future occurrences. The coronavirus outbreak demonstrates the unpredictable nature of such events and the impact on the functioning of society, with consequential disruption to business operations, staff, customers and sales. The Group is actively managing this impact including assisting affected policyholders and staff in meeting their needs.

In support of increased social inclusion and to meet evolving customer needs, the Group is increasing its use of digital services, technologies and distribution methods for the products and services that it offers. This amplifies the risks to Prudential associated with regulations and expectations in relation to privacy and data security. These changes to the Group's use of technology and distribution models have broad implications, touching on Prudential's conduct of business, increasing the risks of technology and data being compromised or misused and potentially leading to new and unforeseen regulatory issues.

2. Key internal, regulatory, economic and (geo)political events over the past 12 months

Q1 2019	Q2 2019	Q3 2019	Q4 2019 and Q1 2020
<p>On 25 March, the Hong Kong IA and Prudential plc sign the Regulatory Letter specifying the supervisory framework immediately following the demerger of M&G plc. The Group has since agreed with the supervisor to apply the local capital summation method (LCSM) to determine Group regulatory capital requirements. The Hong Kong IA's Group-wide Supervision Framework is expected to be finalised in H2 2020.</p> <p>In Indonesia, the Otoritas Jasa Keuangan (OJK) approves 'grandfathering' of Prudential's existing 94.6 per cent shareholding in PT. Prudential Life Assurance, our Indonesian subsidiary, with future capital injections not permitted to increase the percentage of foreign ownership.</p> <p>In March, the Group announces further expansion in West Africa via the acquisition of a majority stake in Group Beneficial, a leading life insurer operating in Cameroon, Côte d'Ivoire and Togo. The acquisition completes in Q3.</p> <p>Over Q1, signs continue of a moderation in US growth and a sharper slowdown in the rest of the world, with Europe's growth expectations dropping progressively throughout the quarter. China reports its lowest quarterly GDP growth rate in 30 years of 6.2 per cent. Central bank rhetoric starts to turn dovish, and this is one of the factors driving the S&P 500 to its best quarter since Q2 2009 (rising by 13.6 per cent), along with returning positive risk sentiment. Meanwhile, yields fall sharply in response to the softening economic outlook and dovish turn by central banks.</p> <p>On 29 March, EIOPA releases a discussion paper on systemic risk and macroprudential policy in insurance, setting out its thinking on how this area should be addressed in the 2020 Solvency II review. The paper suggests a range of potential macroprudential</p>	<p>Prudential's Pulse app launches in April in Malaysia, providing affordable digital health and wellness services to consumers. In June, Prudential announces a strategic partnership with OVO to offer customers wellness, health and wealth products and services in Indonesia.</p> <p>The Hong Kong IA issues its Guidelines on Enterprise Risk Management in July, setting out objectives and requirements on ERM and the Own Risk Solvency Assessment under Pillar 2 of its proposed RBC regime for solo entities.</p> <p>In April, the PRA issues Supervisory Statement (SS 3/19) on 'enhancing banks and insurers' approaches to managing the financial risks from climate change' which outlines the regulatory expectations for financial services firms to assess impacts from climate change.</p> <p>Suspension of the Woodford Equity Income Fund in June raises questions over the ability of the fund management industry to meet redemption requests, in particular for those funds heavily invested in illiquid assets.</p> <p>Several key elections are held across Asia in the first and second quarters. Legislative elections take place in Thailand in March, with the outcome marking the country's return to civilian rule; in April the incumbent President Widodo wins the presidential election in Indonesia; and in May the legislative elections in India see a victory for Prime Minister Narendra Modi. The election results align broadly to consensus polls.</p> <p>From June onwards and continuing over 2019, large-scale demonstrations take place in Hong Kong, sparked by an extradition bill</p>	<p>Central bank monetary policy becomes increasingly accommodative, contributing to a reversal in the weakness in risk assets. In August, following a record high in July, the S&P 500 corrects amid recession fears and trade tensions. The index continues to struggle in September but rebounds strongly over Q4. Government bond yields decline significantly, with the 10-year US Treasury yield falling by circa 50 basis points to 1.5 per cent over August (representing a circa 120 basis points drop over the year), its lowest rate since 2017. In Japan and Europe, the volume of negative-yielding debt surges significantly.</p> <p>Following the launch of ICS field-testing for 2019 in April, the Group submits its results to the IAIS on 31 July 2019. This is the last field-testing exercise prior to the finalisation of the ICS 2.0 specifications and the start of a five-year monitoring period in 2020.</p> <p>In September, US President Donald Trump and Chinese President Xi Jinping agree to resume trade talks following earlier breakdowns in negotiations in May and August. Talks continue positively into Q4 culminating in the signing of a 'Phase One' trade deal between the two countries in January 2020.</p>	<p>On 21 October 2019, M&G plc's shares begin trading on the London Stock Exchange, marking the successful completion of its demerger from the Prudential Group. The Hong Kong IA formally assumes its role as Group-wide supervisor for Prudential plc.</p> <p>Eastspring successfully completes the acquisition of 50.1 per cent of Thanachart Fund, which manages \$7.5 billion of mutual funds in Thailand, for circa \$142 million, with an option to increase its ownership to 100 per cent in future. The acquisition makes Eastspring the fourth-largest asset manager in Thailand.</p> <p>The broader economic cycle continues to deteriorate. US domestic data begins to show economic weakness in November. Despite this, equity markets reach new all-time highs over the quarter, supported by continued application of accommodative monetary policy by central banks.</p> <p>In September, the ECB delivers a package of easing measures, including a renewal of quantitative easing. Following this, the US Federal Reserve lowers its benchmark federal funds target rate for the third time in four months in October. Central banks in China and other emerging markets turn more dovish amid continued weakness in economic data.</p> <p>The 26th Annual Conference of the IAIS takes place in Abu Dhabi on 14 and 15 November, and it is agreed that the ICS project will move from Field Testing into the Monitoring Period phase and ICS v2.0 is released. The Holistic Framework (HF) for systemic risk is endorsed by the FSB at the conference for implementation by the IAIS in 2020. The FSB also confirms that G-SII designations will be suspended until its review in 2022, although a number of the previous G-SII requirements are included either into the Insurance Core Principles or the ComFrame.</p> <p>Following the East Asia Summit in Bangkok in November, 15 of the 16 negotiating participants agree to sign up to the Regional Comprehensive Economic</p>

<p>tools and measures.</p> <p>In February, in a summit in Hanoi, the US and North Korea fail to reach an agreement on nuclear disarmament and a lifting of US-led international sanctions. Donald Trump becomes the first sitting US president to enter North Korea in June as the two countries agree to resume talks, although these stall in Q4.</p>	<p>proposed by the Hong Kong government.</p> <p>Geopolitical tensions rise in the Middle East as Iran announces a step-up in its production of enriched uranium. This follows the US' withdrawal from the 2015 nuclear deal and its subsequent imposition of economic sanctions. Tensions ultimately spike at the start of 2020 when the US assassinates Iranian military leader Qassam Soleimani.</p>		<p>Partnership (RCEP), most likely in Q1 2020, with India deciding not to participate.</p> <p>Hong Kong enters technical recession in Q3, with its economy shrinking by 2.9 per cent overall over 2019, as the protests, which peak in violence during November, impact the territory's economy. On 27 November, the US president signs the Hong Kong Human Rights and Democracy Act into law, requiring annual reviews of Hong Kong's special trade status under US law, as well as sanctions against any official deemed responsible for human rights abuses or for undermining the city's autonomy.</p> <p>The National Association of Insurance Commissioners (NAIC) implements changes to the US statutory reserve and capital framework for variable annuities, effective from 1 January 2020. Jackson chooses to early adopt the changes at 31 December 2019 for US statutory reporting.</p> <p>In December, cases of what appear to be viral pneumonia are reported in Wuhan, China. In January 2020, the virus is identified as a novel coronavirus (the resulting disease has since been named COVID-19) and over Q1 2020 thousands of cases are reported with the virus proceeding to spread to countries across Asia and the world. Prudential Corporation Asia rolls out Asia-wide initiatives and a campaign to support customers and staff.</p> <p>Following its launch, downloads of Pulse by Prudential exceed one million in February 2020. The digital health platform is now one of the most popular health and wellness apps offered by an insurer in the region.</p>
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3. Managing the risks in implementing our strategy

This section provides an overview of the Group's strategy, the significant risks arising from the delivery of this strategy and current risk management focus. The risks outlined below, which are not exhaustive, are discussed in more detail in sections 5 and 6.

Our strategy	Significant risks arising from the delivery of the strategy	Risk management focus
<p>Group-wide <i>Our strategy is to capture the long-term structural opportunities for our markets and geographies, while operating with discipline and seeking to enhance our capabilities through innovation to deliver high-quality resilient outcomes for our customers.</i></p>	<ul style="list-style-type: none"> Transformation risks around key change programmes, including those related to the Group's digital strategy 	<ul style="list-style-type: none"> Continuing the focus on, and ensuring consistency in transformation risk management across the Group's business units. Provision of independent risk assurance, challenge and advice on first line programme risk identification and assessments.
	<ul style="list-style-type: none"> Group-wide regulatory risks 	<ul style="list-style-type: none"> Engagement with national governments, regulators and industry groups on macroprudential and systemic risk-related regulatory initiatives, international capital standards, and other initiatives with Group-wide impacts. Engagement with the Hong Kong IA on, and implementation of, the Group-wide Supervision Framework, which is expected to be finalised in H2 2020.
	<ul style="list-style-type: none"> Information security and data privacy risks 	<ul style="list-style-type: none"> Continuing the implementation of the Group-wide organisational structure and governance model for cyber security management. Focus on compliance with applicable privacy laws across the Group and the appropriate use of customer data.
	<ul style="list-style-type: none"> Business disruption and third-party risks 	<ul style="list-style-type: none"> Continued application of the Group's global business continuity management, with an enhanced focus on operational resilience as it relates to customer outcomes. Applying the distinct oversight and risk management required over the Group's third parties, including its strategic partnerships for product distribution, non-traditional services and processing activities.
	<ul style="list-style-type: none"> Conduct risk 	<ul style="list-style-type: none"> Continuing the enhancement of the Group-wide customer conduct risk management framework building on the Group's existing customer commitments policy.
<p>Asia <i>Serving the protection and investment needs of the growing middle class in Asia.</i></p>	<ul style="list-style-type: none"> Financial risks 	<ul style="list-style-type: none"> Maintaining, and enhancing where necessary, risk limits and implementing business initiatives to manage financial risks, including asset allocation, bonus revisions, product repricing and reinsurance where required.
	<ul style="list-style-type: none"> Persistency risk 	<ul style="list-style-type: none"> Implementation of business initiatives to manage persistency risk, including additional payment methods, enhancing customer experience, revisions to product design and incentive structures. Ongoing experience monitoring.
	<ul style="list-style-type: none"> Morbidity risk 	<ul style="list-style-type: none"> Implementation of business initiatives to manage morbidity risk, including product repricing where required. Ongoing experience monitoring.
<p>United States <i>Providing asset accumulation and retirement income products to US retirees.</i></p>	<ul style="list-style-type: none"> Financial risks 	<ul style="list-style-type: none"> Maintaining, and enhancing where necessary, risk limits, hedging strategies, modelling tools and risk oversight appropriate to Jackson's product mix.
	<ul style="list-style-type: none"> Policyholder behaviour risk 	<ul style="list-style-type: none"> Continued monitoring of policyholder behaviour experience and review of assumptions.
<p>Africa <i>Offering products to new customers in Africa, one of the fastest-growing regions in the world.</i></p>	<ul style="list-style-type: none"> The Group continues to increase its focus on Prudential Africa's most significant risks, being those related to physical and information security and financial crime, as its presence there expands and grows in materiality. 	

4. Risk governance

a System of governance

Appropriately managed risks allow Prudential to take business opportunities and enable the growth of its business. Effective risk management is therefore fundamental in the execution of the Group's business strategy. Prudential's approach to risk management must be both well embedded and rigorous, closely aligned to the Group's key stakeholders and operate across the entire group. As the economic and political environment in which we operate changes, it should also be sufficiently broad and dynamic to respond to these changes.

Prudential has in place a system of governance that promotes and embeds a clear ownership of risk, processes that link risk management to business objectives and a proactive Board and senior management providing oversight of risks. Mechanisms and methodologies to review, discuss and communicate risks are in place together with risk policies and standards to ensure risks are identified, measured, managed, monitored and reported.

How 'risk' is defined

Prudential defines 'risk' as the uncertainty that is faced in implementing the Group's strategies and achieving its objectives successfully, and includes all internal or external events, acts or omissions that have the potential to threaten the success and survival of the Group. Accordingly, material risks will be retained selectively when it is considered that there is value in doing so, and where it is consistent with the Group's risk appetite and philosophy towards risk-taking.

How risk is managed

Risk management is embedded across the Group through the Group Risk Framework, which is owned by the Board and details Prudential's risk governance, risk management processes and risk appetite. The Group's risk governance arrangements are based on the concept of the 'three lines of defence' model, comprising risk taking and management, risk control and oversight, and independent assurance and has been developed to monitor the risks to our business. The aggregate Group exposure to its key risk drivers is monitored and managed by the Group Risk function which is responsible for reviewing, assessing, providing oversight and reporting on the Group's risk exposure and solvency position from the Group economic, regulatory and ratings perspectives.

In 2019, the Group reviewed and updated its policies and processes for alignment with the requirements of its new Group-wide supervisor. The frameworks relating to oversight of transformation risk and model risk were further embedded and the Group focused on development of a Group-wide customer conduct risk framework, building on its existing customer commitments policy.

The following section provides more detail on our risk governance, risk culture and risk management process.

b Group Risk Framework

i. Risk governance and culture

Prudential's risk governance comprises the Board organisational structures, reporting relationships, delegation of authority, roles and responsibilities, and risk policies that the Group Head Office and the business units establish to make decisions and control their activities on risk-related matters. It includes individuals, Group-wide functions and committees involved in overseeing and managing risk.

The risk governance structure is led by the Group Risk Committee, supported by independent non-executive directors on risk committees of the Group's main subsidiaries. These committees monitor the development of the Group Risk Framework, which includes risk appetite, limits, and policies, as well as risk culture.

The Group Risk Committee reviews the Group Risk Framework and recommends to the Board any changes required to ensure that it remains effective in identifying and managing the risks faced by the Group. A number of core risk policies and standards support the Framework to ensure that risks to the Group are identified, assessed, managed and reported. In addition, a set of policies owned by other Group functions support the effective implementation of the Group Risk Framework.

Culture is a strategic priority of the Board, which recognises its importance in the way that the Group does business. Risk culture is a subset of Prudential's broader organisational culture, which shapes the organisation-wide values that we use to prioritise risk management behaviours and practices.

Risk culture forms part of the Group Risk Framework and the Group works to promote a responsible risk culture in the following ways:

- Senior management in business units promote a responsible culture of risk management by emphasising the importance of balancing risk with profitability and growth in decision-making. This balance is included in the performance evaluation of key individuals, including both senior management and those directly responsible for risk management;
- The Group works to build skills and capabilities in risk management, which are needed by both senior management and risk management specialists, while attempting to allocate scarce resources appropriately; and
- Employees understand and care about their role in managing risk – they are aware of and discuss risk openly as part of the way they perform their role.

The Group Risk Committee also has a key role in providing advice to the Remuneration Committee on risk management considerations to be applied in respect of executive remuneration.

Prudential's Group Code of Business Conduct and Group Governance Manual include a series of guiding principles that govern the day-to-day conduct of all its people and any organisations acting on its behalf. This is supported by specific risk-related policies which require that the Group act in a responsible manner. These include, but are not limited to,

policies related to financial crime covering anti-money laundering, financial crime and anti-bribery and corruption. The Group's third-party supply policy ensures that human rights and modern slavery considerations are embedded across all of its supplier and supply chain arrangements. Embedded procedures to allow individuals to speak out safely and anonymously against unethical behaviour and conduct are also in place.

The ESG Executive Committee is focused on the holistic assessment of ESG matters material to the Group, raising matters for Board decision-making and overseeing the implementation of resulting decisions, supporting the sustainable delivery of the Group's strategy. It reports to the Board through the Group Nomination and Governance Committee which comprises the Group's Chairman, the Senior Independent Director, and the chairs of the Audit, Remuneration and Risk committees and is regularly attended by the Group Chief Executive.

ii. **The risk management cycle**

The risk management cycle comprises processes to identify, measure and assess, manage and control, and monitor and report on our risks.

Risk identification

Group-wide risk identification takes place throughout the year as the Group's businesses undertake a comprehensive bottom-up process to identify, assess and document its risks. This concludes with an annual top-down identification of the Group's principal risks, which considers those risks that have the greatest potential to impact the Group's operating results and financial condition and is used to inform risk reporting to the risk committees and the Board for the year.

Our risk identification process also includes the Group's Own Risk and Solvency Assessment (ORSA) and horizon-scanning performed as part of our emerging risk management process. In addition to risk identification, the ORSA is also the ongoing process of assessing, controlling, monitoring and reporting the risks to which the business is exposed. It includes an assessment of capital adequacy to ensure that the Group's solvency needs are met at all times as well as quantitative and qualitative assessments of the Group's risk profile and solvency needs on a forward-looking basis, incorporating the Group's strategy and business plan. The Group's regular ORSA report was produced in H1 2019, with an additional ORSA report produced in October 2019 in anticipation of the completion of the demerger of M&G plc which included a forward-looking assessment of the post demerger Group's capital and liquidity position under a range of stresses and scenarios.

In accordance with provision 28 of the UK Corporate Governance Code, a process is in place to support Group-wide identification of the company's emerging and principal risks and this combines both top-down and bottom-up views of risks at the level of the Group and its business units. The Board performs a robust assessment and analysis of these principal and emerging risks facing the company through the risk identification process, the Group ORSA report and the risk assessments undertaken as part of the business planning review, including how they are managed and mitigated, which supports decision-making.

Stress and scenario testing, which includes reverse stress testing requiring the Group to ascertain the point of business model failure, is another tool that helps us to identify the key risks and scenarios that may have a material impact on the Group.

The risk profile is a key output from the risk identification and risk measurement processes and is used as a basis for setting Group-wide limits, management information, assessment of solvency needs, and determining appropriate stress and scenario testing. The Group's annual set of principal risks is given enhanced management and reporting focus.

Risk measurement and assessment

All identified risks are assessed based on an appropriate methodology for that risk. All quantifiable risks, which are material and mitigated by holding capital, are modelled in the Group's internal model, which is used to determine economic capital requirements. Governance arrangements are in place to support the internal model, including independent validation and processes and controls around model changes and limitations.

Risk management and control

The control procedures and systems established within the Group are designed to manage the risk of failing to meet business objectives. These focus on aligning the levels of risk-taking with the Group's strategy and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

Risk management and control requirements are set out in the Group risk policies, and form part of the holistic risk management approach under the Group's ORSA process. These risk policies define:

- The Group's risk appetite in respect of material risks, and the framework under which the Group's exposure to those risks is limited;
- The processes to enable Group senior management to effect the measurement and management of the Group material risk profile in a consistent and coherent way; and
- The flows of management information required to support the measurement and management of the Group's material risks.

The methods and risk management tools that the Group employs to mitigate each of its major categories of risks are detailed in the further risk information section below.

Risk monitoring and reporting

The identification of the Group's key risks informs the management information received by the Group risk committees and the Board. Risk reporting of key exposures against appetite is also included, as well as ongoing developments in the

Group's principal and emerging risks.

iii. Risk appetite, limits and triggers

The Group recognises that interests of its customers and shareholders and a managed acceptance of risk lies at the heart of its business, and that effective risk management capabilities represent a key source of competitive advantage. The extent to which Prudential is willing to take risk in the pursuit of its business strategy and objective to create shareholder value is defined by a number of qualitative and quantitative expressions of risk appetite, operationalised through measures such as limits, triggers and indicators. The Group Risk function is responsible for reviewing the scope and operation of these risk appetite measures at least annually to determine that they remain relevant. The Board approves all changes made to the Group's aggregate risk appetite and has delegated authority to the Group Risk Committee to approve changes to the system of limits, triggers and indicators.

Group risk appetite is defined and monitored in aggregate for financial and non-financial risks by the setting of objectives for its liquidity, capital requirements and non-financial risk exposure. Further detail is included in sections 5 and 6, as well as covering risks to shareholders, including those from participating and third-party business. Group limits operate within these expressions of risk appetite to constrain material risks, while triggers and indicators provide further constraint and defined points for escalation.

Capital requirements

Limits on capital requirements aim to ensure that the Group maintains sufficient capital such that in business-as-usual and stressed conditions it exceeds its internal economic capital requirements, achieves its desired target rating to meet its business objectives, and supervisory intervention is avoided. The two measures currently in use at the Group level are the regulatory local capital summation method (LCSM) capital requirements (both minimum and prescribed levels) and internal economic capital (ECap) requirements. In addition, capital requirements are monitored on local statutory bases.

The Group Risk Committee is responsible for reviewing the risks inherent in the Group's business plan and for providing the Board with input on the risk/reward trade-offs implicit therein. This review is supported by the Group Risk function, which uses submissions from local business units to calculate the Group's aggregated position relative to the aggregate risk limits.

Liquidity

The objective of the Group's liquidity risk appetite is to ensure that the Group is able to generate sufficient cash resources to meet financial obligations as they fall due in business-as-usual and stressed scenarios. Risk appetite with respect to liquidity risk is measured using a liquidity coverage ratio (LCR) which considers the sources of liquidity against liquidity requirements under stress scenarios.

Non-financial risks

The Group is exposed to non-financial risks as an outcome of its chosen business activities and strategy. It aims to manage these risks effectively to maintain its operational resilience and its commitments to customers, and to avoid material adverse impact on its reputation.

5. Summary risks

Broadly, the risks assumed across the Group can be categorised as those relating to its financial situation, its business and industry, regulatory and legal compliance and those relating to ESG. Principal risks, whether materialising within the Group or at third parties on which the Group relies, may have a financial impact and could also impact the performance of products or services provided to customers and distributors, and its ability to fulfil commitments to customers, giving rise to potential risks to its brand and reputation. These risks, which are not exhaustive, are summarised below. The materiality of these risks, whether material at the level of the Group or its business units, is also indicated. Further information on some of these risks and the risk management and mitigation in place are included in section 6. The Group's disclosures covering risk factors are aligned to the same categories and can be found at the end of this document.

Risks to the Group's financial situation (including those from the external macroeconomic and geopolitical environment)

The global economic and geopolitical environment may impact on the Group directly by affecting trends in financial markets and asset values, as well driving short-term volatility.

Risks in this category include the market risks to our investments, the credit quality of our investment portfolio as well as liquidity risk.

- **Global economic conditions**

Changes in global economic conditions can impact Prudential directly; for example, by leading to reduced investment returns and fund performance and liquidity, and increasing the cost of promises (guarantees) that have been made to our customers. Changes in economic conditions can also have an indirect impact on the Group; for example, leading to a decrease in the propensity for people to save and buy Prudential's products, as well as changing prevailing political attitudes towards regulation. This is a risk which is considered material at the level of the Group.

- **Geopolitical risk**

The geopolitical environment can directly impact on the Group in a wide range of ways. Financial markets and economic sentiment have been highly susceptible to geopolitical developments in recent years, with implications for the Group's financial situation. Geopolitical tensions can result in mass civil protests and/or disobedience as well as the imposition of restrictive regulatory and trading requirements by governments and regimes; increasing operational, business disruption and regulatory risks, and potentially impacting sales directly. Developments in the Hong Kong protests and the recent COVID-19 outbreak across Asia are being closely monitored by the Group and plans have been enacted to ensure that any potential impact to the business, our employees and customers are managed within our existing business resilience processes.

- **Market risks to our investments**

This is the potential for reduced value of Prudential's investments resulting from the volatility of asset prices, driven by fluctuations in equity prices, interest rates, foreign exchange rates and property prices.

In the Asia business, the main market risks arise from the value of fees from its fee-earning products as well as from the guarantees of some non-linked products. In the US, Jackson's fixed and variable annuity books are exposed to a variety of market risks due to the assets backing these policies.

Interest rates remain low relative to historical levels and a persistently low interest rate environment poses challenges to both the capital position of life insurers as well as to new business profitability.

- **Liquidity risk**

This is the risk of not having sufficient liquid assets to meet obligations as they fall due, and the Group looks at this under both normal and stressed conditions. This is a risk which is considered material at the level of the Group.

- **Credit risk**

The Group's asset portfolio gives rise to invested credit risk, being the potential for a reduction in the value of Prudential's investments driven by the lowering of credit quality and likelihood of defaults. The assets backing the Jackson general account portfolio and the Asia shareholder business means credit risk is considered a material risk for the Group's business units.

The Group is also exposed to counterparty default risk through activities such as reinsurance and derivative hedging as well as the operational management of cash.

Risks from the nature of our business and our industry

These include the Group's non-financial risks (including operational and financial crime risk), transformation risks from significant change activity and the insurance risks assumed by the Group in providing its products.

- **Transformation risk**

This is the risk arising from the design and execution of a material and complex change initiative, or a combination of initiatives.

A number of significant change programmes are currently in progress that effect both the Group's strategic vision, enable its future compliance with impending regulatory changes and to maintain the Group's market competitiveness. The breadth of these activities, and their consequences, including the reputational impact, to the Group should they fail to meet their objectives, mean that this risk remains material at the level of the Group.

- **Non-financial risks**

A combination of the complexity of the Group, its activities and the extent of transformation in progress creates a challenging operating environment.

Operational risk is the risk of loss or unintended gain from inadequate or failed processes, personnel, systems and external events, and can arise through business transformation, introducing new products, new technologies, and entering into new markets and geographies. Implementing the business strategy and processes for ensuring regulatory compliance (including those relating to the conduct of its business) requires interconnected change initiatives across the Group, the pace of which introduces further complexity. The Group's outsourcing and third-party relationships introduce their own distinct risks. Such operational risks, if they materialise, could result in financial loss and/or reputational damage. These risks are considered to be material at the level of the Group.

Business disruption risks may impact on Prudential's ability to meet its key objectives, ensure continuity of services to customers, and protect its brand and reputation. The Group's business resilience is a core part of a well-embedded business continuity management programme, which contributes to the wider operational resilience of the Group.

Information security and data privacy risks are significant considerations for Prudential and the cyber security threat continues to evolve globally in sophistication and potential significance. This includes the risk of malicious attack on its systems, network disruption and risks relating to data security, integrity, privacy and misuse. The scale of the Group's IT infrastructure and network (and the services required to monitor and manage it), stakeholder expectations and high-profile cyber security and data misuse incidents across industries mean that these risks are considered material at the level of the Group.

Prudential and the insurance industry are making increasing use of emerging technological tools and digital services, or forming partnerships with third parties that provide these capabilities. While this provides new opportunities, opening up markets, improving insights and increasing scalability, it also comes with additional risks which are managed within the Group's existing governance and risk management processes, including additional operational risks and increased risks around data security and misuse. Automated digital distribution channels increase the criticality of system and process resilience in order to deliver uninterrupted service to customers.

As with all financial services firms, the nature of the Group's business and its operations means that it is exposed to financial crime risks such as those relating to money laundering, fraud, sanctions compliance and bribery and corruption.

- **Insurance risks**

The nature of the products offered by Prudential exposes it to insurance risks, which form a significant part of the overall Group risk profile.

The insurance risks that the business is exposed to by virtue of its products include **persistence risk** (customers lapsing their policies at different levels than expected, and a type of policyholder behaviour risk); **mortality risk** (higher number of policyholders with life protection dying than expected); **morbidity risk** (more policyholders with health protection becoming ill than expected) and **longevity risk** (policyholders living longer than expected). The medical insurance business in Asia is also exposed to **medical inflation risk** (the increasing cost of medical treatments being higher than expected).

The pricing of Prudential's products requires it to make a number of assumptions, and deviations from these may impact its reported profitability and capital position. Across its business units, some insurance risks are more material than others.

Persistence and morbidity risks are among the most material insurance risks for the Asia business given the focus on health and protection products in the region.

The Jackson business is most exposed to policyholder behaviour risk, including persistence, which impacts the profitability of the variable annuity business and is influenced by market performance and the value of policy guarantees.

- **Conduct risk**

Prudential's conduct of business, especially the design and distribution of its products is crucial in ensuring that the Group's commitment to meeting customers' needs and expectations are met. The Group's conduct risk framework is owned by the first line which reflects management focus on achieving good customer outcomes.

Risks related to regulatory and legal compliance

These include risks associated with prospective regulatory and legal changes and compliance with existing regulations and laws – including their retrospective application – with which the Group must comply with in the conduct of its business.

Prudential operates under the ever-evolving requirements set out by diverse regulatory, legal and tax regimes. The increasing shift towards macroprudential regulation and the number of regulatory changes underway across Asia and US (in particular focusing on capital requirements and consumer protection) are key areas of focus. Regulatory reforms can have a material impact on Prudential's businesses. From 21 October 2019, Prudential's Group-wide supervisor changed to the Hong Kong IA. As a result, the Group is now applying the local capital summation method (LCSM) to determine Group regulatory capital requirements (both minimum and prescribed levels). The Hong Kong IA's Group-wide Supervision (GWS) Framework is expected to be finalised in the second half of 2020.

As the industry's use of emerging technological tools and digital services increases, this is likely to lead to new and unforeseen regulatory issues. The Group is monitoring the regulatory developments and standards emerging around the governance and ethical use of technology and data.

The Group's ESG-related risks

These include environmental risks associated with climate change (including physical and transition risks), social risks that arise from the diverse people and communities that the Group interacts with and governance-related risks.

As a Group, responding effectively to those material risks with ESG implications is crucial in maintaining Prudential's brand and reputation, and in turn its financial performance and delivery of its long-term strategy.

These include the **environmental risks** associated with climate change and the impact of this on the business, such as the physical impacts on the Group's operational resilience, underwriting assumptions and claims profile, as well as the impact to long-term asset valuations resulting from the transition to a low carbon economy. **Social risks** affecting Prudential may arise from public health and demographic changes (such as increasing obesity and urbanisation), which may impact on product claims profiles. Social risks may also arise from a failure to consider the rights, diversity, well-being, and interests of people and communities in which the Group, or its third-parties, operates. This includes the responsibilities the Group assumes as a responsible employer. **Governance risks** may arise from a failure to maintain high standards of corporate governance (including committee independence and diversity) senior management behaviours and oversight of key risks.

Policies and procedures to support how the Group operates in relation to certain ESG issues are included in the Group Governance Manual. Further information on how Prudential addresses material risks associated with ESG themes are included in the ESG Summary.

6. Further risk information

In reading the sections below, it is useful to understand that there are some risks that Prudential's policyholders assume by virtue of the nature of their products, and some risks that the Company and its shareholders assume. Examples of the latter include those risks arising from assets held directly by and for the Company or the risk that policyholder funds are exhausted. This report is focused mainly on risks to the shareholder but will include those which arise indirectly through our policyholder exposures.

6.1 Risks to the Group's financial situation, including those from the external macroeconomic and geopolitical environment

a. Market risk

The main drivers of market risk in the Group are:

- Investment risk, which arises on our holdings of equity and property investments, the prices of which can change depending on market conditions. The main investment risk exposure arises from the portion of the profits from the Hong Kong with-profits funds which the shareholders are entitled to receive; the value of the future fees from the fee-earning products in the Asia business; and from the asset returns backing Jackson's variable annuities business;
- Interest rate risk, which is driven by the valuation of Prudential's assets (particularly the bonds that it invests in) and liabilities, which are dependent on market interest rates and exposes it to the risk of those moving in a way that is detrimental. The Group's interest rate risk is driven by Jackson's fixed annuity business, the cost of guarantees in its fixed index and variable annuity business, and the guarantees of some non-unit-linked investment savings products in Asia. The impact of lower interest rates also manifests through reduced solvency levels in some of the Asian businesses as well as reduced new business profitability; and
- Foreign exchange risk, through translation of its profits and assets and liabilities denominated in various currencies, given the geographical diversity of the business.

The Group has appetite for market risk where it arises from profit-generating insurance activities to the extent that it remains part of a balanced portfolio of sources of income for shareholders and is compatible with a robust solvency position.

The Group's market risks are managed and mitigated by the following:

- The Group market risk policy;
- The Group Asset Liability Committee – a first-line risk management advisory committee to the Group Chief Executive Officer which supports the identification, assessment and management of key financial risks significant to the achievement of the Group's business objectives;
- Risk appetite statements, limits and triggers;
- Our asset and liability management programmes which include management actions such as asset allocation, bonus revisions, repricing and the use of reinsurance where appropriate;
- Hedging derivatives, including equity options and futures, interest rate swaps and swaptions and currency forwards;
- The monitoring and oversight of market risks through the regular reporting of management information; and
- Regular deep dive assessments.

Equity and property investment risk

In Asia, the shareholder exposure to equity price movements results from unit-linked products, where fee income is linked to the market value of the funds under management. Further exposure arises from with-profits businesses where bonuses declared are based broadly on historical and current rates of return from the Asia business's investment portfolios, which include equities.

In Jackson, investment risk arises from the assets backing customer policies. Equity risk is driven by the variable annuity business, where the assets are invested in both equities and bonds and the main risk to the shareholder comes from providing the guaranteed benefits offered. The exposure to this is primarily controlled by using a derivative hedging programme, as well as through the use of reinsurance to pass on the risk to third-party reinsurers.

While accepting the equity exposure that arises on future fees, the Group has limited appetite for exposures to equity price movements to remain unhedged or for volatility within policyholder guarantees after taking into account any natural offsets and buffers within the business.

Interest rate risk

Some products that Prudential offers are sensitive to movements in interest rates. As part of the Group's ongoing management of this risk, a number of mitigating actions to the in-force business have been taken, as well as repricing and restructuring new business offerings in response to recent relatively low interest rates. Nevertheless, some sensitivity to interest rate movements is still retained.

The Group's appetite for interest rate risk is limited to where assets and liabilities can be tightly matched and where liquid assets or derivatives exist to cover interest rate exposures.

In Asia, our exposure to interest rate risk arises from the guarantees of some non-unit-linked investment savings products, including the Hong Kong with-profits and non-profit business. This exposure exists because of the potential for an asset and liability mismatch, where long-dated liabilities and guarantees are backed by short-dated assets, which cannot be eliminated but is monitored and managed through local risk and asset liability management committees against risk appetite aligned with the Group's limit framework.

Jackson is affected by interest rate movements to its fixed annuity book where the assets are primarily invested in bonds and shareholder exposure comes from the mismatch between these assets and the guaranteed rates that are offered to policyholders. Interest rate risk results from the cost of guarantees in the variable annuity and fixed index annuity business, which may increase

when interest rates fall. The level of sales of variable annuity products with guaranteed living benefits is actively monitored, and the risk limits we have in place help to ensure we are comfortable with the level of interest rate and market risks incurred as a result. Derivatives are also used to provide some protection.

Foreign exchange risk

The geographical diversity of Prudential's businesses means that it has some exposure to the risk of foreign exchange rate fluctuations. Some entities within the Group that write policies, invest in assets or enter into other transactions in local currencies or currencies not linked to the US dollar. Although this limits the effect of exchange rate movements on local operating results, it can lead to fluctuations in the Group financial statements when results are reported in US dollars. This risk is accepted within our appetite for foreign exchange risk.

In cases where a non-US dollar denominated surplus arises in an operation which is to be used to support Group capital, or where a significant cash payment is due from a subsidiary to the Group, this currency exposure may be hedged where it is believed to be favourable economically to do so. Further, the Group generally does not have appetite for significant direct shareholder exposure to foreign exchange risks in currencies outside the countries in which it operates, but it does have some appetite for this on fee income and on non-sterling investments within the with-profits fund. Where foreign exchange risk arises outside appetite, currency swaps and other derivatives are used to manage the exposure.

b. Credit risk

Prudential invests in bonds that provide a regular, fixed amount of interest income (fixed income assets) in order to match the payments needed to policyholders. It also enters into reinsurance and derivative contracts with third parties to mitigate various types of risk, as well as holding cash deposits at certain banks. As a result, it is exposed to credit risk and counterparty risk across its business.

Credit risk is the potential for reduction in the value of investments which results from the perceived level of risk of an investment issuer being unable to meet its obligations (defaulting). Counterparty risk is a type of credit risk and relates to the risk of the counterparty to any contract we enter into being unable to meet their obligations causing us to suffer loss.

The Group has some appetite to take credit risk where it arises from profit-generating insurance activities, to the extent that it remains part of a balanced portfolio of sources of income for shareholders and is compatible with a robust solvency position.

A number of risk management tools are used to manage and mitigate this credit risk, including the following:

- A credit risk policy and dealing and controls policy;
- Risk appetite statements and limits that have been defined on issuers, and counterparties;
- Collateral arrangements for derivative, secured lending reverse repurchase and reinsurance transactions;
- The Group Credit Risk Committee's oversight of credit and counterparty credit risk and sector and/or name-specific reviews;
- Regular assessments; and
- Close monitoring or restrictions on investments that may be of concern.

Debt and loan portfolio

Credit risk also arises from the debt portfolio in the Asia business comprising the shareholder, with-profit and unit-linked funds, the value of which was \$74.7 billion at 31 December 2019. The majority (67 per cent) of the portfolio is in unit-linked and with-profits funds and so exposure of the shareholder to this component is minimal. The remaining 33 per cent of the debt portfolio is held to back the shareholder business.

In the general account of the Group's US business, \$58.5 billion of debt securities are held to support shareholder liabilities including those from our fixed annuities, fixed index annuities and life insurance products.

The shareholder-backed debt portfolio of the Group's other operations was \$1.3 billion as at 31 December 2019.

Further details of the composition and quality of our debt portfolio, and exposure to loans, can be found in the IFRS financial statements.

Group sovereign debt

Prudential also invests in bonds issued by national governments. This sovereign debt holdings represented 21 per cent or \$18.0 billion¹ of the shareholder debt portfolio of the Group as at 31 December 2019 (31 December 2018: 20 per cent or \$14.8 billion of the shareholder debt portfolio attributable to continuing operations). One per cent of this was rated AAA and 83 per cent was considered investment grade (31 December 2018: 84 per cent of the sovereign debt holdings attributable to continuing operations was considered investment grade).

The particular risks associated with holding sovereign debt are detailed further in our disclosures on risk factors.

The exposures held by the shareholder-backed business and with-profits funds in sovereign debt securities at 31 December 2019 are given in note C3.2(d) of the Group's IFRS financial statements.

Bank debt exposure and counterparty credit risk

Prudential's exposure to banks is a key part of its core investment business, as well as being important for the hedging and other activities undertaken to manage its various financial risks. Given the importance of its relationship with its banks, exposure to the sector is considered a material risk for the Group.

The exposures held by the shareholder-backed business and with-profits funds in bank debt securities at 31 December 2019 are given in note C3.2(d) of the Group's IFRS financial statements for continuing operations.

The exposure to derivative counterparty and reinsurance counterparty credit risk is managed using an array of risk management tools, including a comprehensive system of limits. Where appropriate, Prudential reduces its exposure, buys credit protection or uses additional collateral arrangements to manage its levels of counterparty credit risk.

At 31 December 2019:

- 92 per cent of the Group's shareholder portfolio is investment grade rated². In particular, 61 per cent of the portfolio is rated² A- and above (or equivalent); and
- The Group's shareholder portfolio is well diversified: no individual sector³ makes up more than 15 per cent of the total portfolio (excluding the financial and sovereign sectors).

c. Liquidity risk

Prudential's liquidity risk arises from the need to have sufficient liquid assets to meet policyholder and third-party payments as they fall due. This incorporates the risk arising from funds composed of illiquid assets and results from a mismatch between the liquidity profile of assets and liabilities. Liquidity risk may impact on market conditions and valuation of assets in a more uncertain way than for other risks like interest rate or credit risk. It may arise, for example, where external capital is unavailable at sustainable cost, increased liquid assets are required to be held as collateral under derivative transactions or where redemption requests are made against Prudential external funds.

Prudential has no appetite for liquidity risk, ie for any business to have insufficient resources to cover its outgoing cash flows, or for the Group as a whole to not meet cash flow requirements from its debt obligations under any plausible scenario.

The Group has significant internal sources of liquidity, which are sufficient to meet all of our expected cash requirements for at least 12 months from the date the financial statements are approved, without having to resort to external sources of funding. The Group has a total of £2.0 billion of undrawn committed facilities that can be made use of, expiring in 2024. Access to further liquidity is available through the debt capital markets and an extensive commercial paper programme is in place, and Prudential has maintained a consistent presence as an issuer in the market for the past decade.

A number of risk management tools are used to manage and mitigate this liquidity risk, including the following:

- The Group's liquidity risk policy;
- Risk appetite statements, limits and triggers;
- Regular assessment by the Group and business units of LCRs which are calculated under both base case and stressed scenarios and are reported to committees and the Board;
- The Group's Liquidity Risk Management Plan, which includes details of the Group Liquidity Risk Framework as well as gap analysis of liquidity risks and the adequacy of available liquidity resources under normal and stressed conditions;
- Regular stress testing;
- Our contingency plans and identified sources of liquidity;
- The Group's ability to access the money and debt capital markets;
- Regular deep dive assessments; and
- The Group's access to external committed credit facilities.

6.2 Risks arising from the nature of the Group's business and industry

a. Transformation risk

A number of significant change programmes are currently running in order to implement the Group's strategic vision, comply with impending regulatory changes and to maintain market competitiveness. Many of these programmes are interconnected with complex dependencies and/or of large scale, and may have financial and non-financial implications if they fail to meet their objectives. Additionally, these programmes inherently give rise to design and execution risks, and may introduce new, or increase existing, business risks. These include an increased strain on the operational capacity, newly-implemented controls being ineffective or general weakening of the control environment of the Group. Implementing further strategic initiatives may amplify these risks. Furthermore, these programmes require ongoing oversight, coordinated independent assurance and regular monitoring and consolidated reporting, as part of the Group's Transformation Risk Framework, to mitigate the risks to the business.

The Group's current significant change programmes relate to an expansion of its use of technology, platforms and analytics, improving the efficiency of certain business functions and processes (data, systems, people) and the establishment of new third-party arrangements. The Group's transformation portfolio also includes programmes related to regulatory change, including but not limited to, the transition to the Hong Kong IA's GWS framework, the discontinuation of IBORs and the implementation of IFRS 17 – see section 6.3 below for further information.

b. Non-financial risks

In the course of doing business, the Group is exposed to non-financial risks arising from its operations, the business environment and its strategy. The main risks across these areas are detailed below.

Operational risk

Prudential defines operational risk as the risk of loss (or unintended gain or profit) arising from inadequate or failed internal processes, personnel or systems, or from external events. This includes employee error, model error, system failures, fraud or some other event which disrupts business processes or has a detrimental impact to customers. Processes are established for activities across the scope of our business, including operational activity, regulatory compliance, and those supporting ESG activities more broadly, any of which can expose us to operational risks. A large volume of complex transactions is processed by the Group across a number of diverse products and are subject to a high number of varying legal, regulatory and tax regimes. Prudential has no appetite for material losses (direct or indirect) suffered as a result of failing to develop, implement or monitor appropriate controls to manage operational risks.

The Group's outsourcing and third-party relationships require distinct oversight and risk management processes. A number of important third-party relationships exist which provide the distribution and processing of Prudential's products, both as market counterparties and as outsourcing partners, and new IT and technology partners are being engaged. In Asia, the Group continues to expand its strategic partnerships and renew bancassurance arrangements and in Africa Prudential is continuing its expansion through acquisitions. These third-party arrangements support Prudential in providing a high level and cost-effective service to our customers, but they also make us reliant on the operational resilience and performance of our outsourcing partners.

The Group's requirements for the management of material outsourcing arrangements, which are in accordance with relevant applicable regulations, are included through its well-established Group-wide third-party supply policy. Third-party management is also included in embedded in the Group-wide framework and risk management for operational risk (see below). Third-party management forms part of the Group's operational risk categorisations and a defined qualitative risk appetite statement, limits and triggers are in place.

The performance of the Group's core business activities places reliance on the IT infrastructure, provided by our external IT and technology partners, that supports day-to-day transaction processing and administration. The IT environment must also be secure, and an increasing cyber risk threat needs to be addressed as the Group's digital footprint increases and the sophistication of cyber threats continue to evolve – see separate information security risk sub-section below. Exposure to operational and other external events could impact operational resilience by significantly disrupting systems, operations and services to customers, which may result in financial loss, customer impacts and reputational damage.

Operational challenges also exist in keeping pace with regulatory changes. This requires implementing processes to ensure we are, and remain, compliant on an ongoing basis, including regular monitoring and reporting. See section 6.3 below for further detail on the Group's regulatory and legal risks.

Business disruption risk

Prudential recognises that business disruption is a key risk to effective business operations and delivery of business services, and has the potential to impact our customers and the market more broadly. The Group therefore continuously seeks to develop greater business resilience through planning, preparation, testing and adaption. Business continuity management (BCM) is one of a number of activities undertaken by the Group Security function that helps the Group to protect its key stakeholders and its systems, and business resilience is at the core of the Group's embedded BCM programme. The BCM programme and framework are appropriately linked to all business activities, and includes business impact analyses, risk assessments, incident management plans, disaster recovery plans, and the exercising and execution of these plans. Based on industry standards, the BCM programme is designed to provide business continuity that matches the Group's evolving business needs and is appropriate to the size, complexity and nature of the Group's operations. Prudential is also taking a broader, multi-functional approach to building greater business resilience, working with our external third-party providers and our service delivery teams to improve our ability to withstand, absorb and recover from disruption to our business services, while minimising the impact on our customers. The Group continuously reviews and develops its contingency plans and its ability to respond effectively when disruptive incidents occur, such as those resulting from the Hong Kong protests and the recent COVID-19 outbreak.

Business disruption risks are closely monitored by the Group Security function, with key operational effectiveness metrics and updates on specific activities being reported to the Group Risk Committee and discussed by cross-functional working groups.

Information security risk and data privacy

Information security risk remains an area of heightened focus after a number of recent high-profile attacks and data losses across industries. Criminal capability in this area is maturing and industrialising, with an increased level of understanding of complex financial transactions which increases the risks to the financial services industry. The threat landscape is continuously evolving, and the systemic risk of sophisticated but untargeted attacks is rising, particularly during times of heightened geopolitical tensions.

Developments in data protection requirements, such as GDPR that came into force in May 2018 and the California Consumer Protection Act which came into force on 1 January 2020, continue to evolve worldwide. This increases financial and reputational implications for Prudential in the event of a breach of its (or third-party suppliers') IT systems. As well as protecting data, stakeholders expect companies and organisations to use personal information transparently and appropriately. Given this, both information security and data privacy are key risks for the Group. As well as having preventative risk management in place, it is fundamental that the Group has robust critical recovery systems in place in the event of a successful attack on its infrastructure, a breach of its information security or a failure of its systems in order to retain its customer relationships and trusted reputation.

During 2019, the revised organisational structure and governance model for cyber security management was implemented. This change has resulted in a centralised Group-wide Information Security and Privacy function, leveraging skills, tools and resources across the business under a 'centre of excellence' model. This organisational change has increased the Group's efficiency and agility in responding to cyber security related incidents and has facilitated increased collaboration between business units leveraging their respective strengths in delivering the Group-wide information security programme.

The strategic objectives of the programme include achieving consistency in the execution of security disciplines across the Group, improving visibility across Prudential's businesses and deployment of automation to detect and address threats. It also includes achieving security by design by aligning subject matter expertise to the Group's digital and business initiatives to embed security controls across platforms and ecosystems. Implementation of the operating model and progress against these strategic objectives have continued over the year.

The Board receives periodic updates on information security risk management throughout the year. Group functions work with the business units to address risks locally within the national and regional context of each business following the strategic direction of the Group-wide information security function.

Financial crime risk

As with all financial services firms, Prudential is exposed to risks relating to money laundering (the risk that the products or services of the Group are used by customers or other third parties to transfer or conceal the proceeds of crime); fraud (the risk that fraudulent claims or transactions, or procurement of services, are made against or through the business); sanctions compliance (the risk that the Group undertakes business with individuals and entities on the lists of the main sanctions regimes); and bribery and corruption (the risk that employees or associated persons seek to influence the behaviour of others to obtain an unfair advantage or receive benefits from others for the same purpose).

Prudential operates in some high-risk countries where, for example, the acceptance of cash premiums from customers may be common practice, large-scale agency networks may be in operation where sales are incentivised by commission and fees or where there is a higher concentration of exposure to politically-exposed persons.

The Group-wide policies we have in place on anti-money laundering, fraud, sanctions and anti-bribery and corruption reflect the values, behaviours and standards that are expected across the business. Across Asia, screening and transaction monitoring systems are in place and a series of improvements and upgrades are being implemented, while a programme of compliance control monitoring reviews is being undertaken. Risk assessments are performed annually at higher risk locations. Due diligence reviews and assessments against Prudential's financial crime policies are performed as part of the Group's business acquisition process. The Group continues to undertake strategic activity to monitor and evaluate the evolving fraud risk landscape, mitigate the likelihood of fraud occurring and increase the rate of detection.

The Group has in place a mature confidential reporting system through which staff and other stakeholders can report concerns relating to potential misconduct. The process and results of this are overseen by the Group Audit Committee.

Group-wide framework and risk management for operational risk

The risks detailed above form key elements of the Group's operational risk profile. In order to identify, assess, manage, control and report effectively on all operational risks across the business, a Group-wide operational risk framework is in place. The key components of the framework are:

- Application of a risk and control assessment (RCA) process, where operational risk exposures are identified and assessed as part of a periodical cycle. The RCA process considers a range of internal and external factors, including an assessment of the control environment, to determine the business's most significant risk exposures on a prospective basis;
- An internal incident management process, which identifies, quantifies and monitors remediation conducted through root cause analysis and application of action plans for risk events that have occurred across the business;
- A scenario analysis process for the quantification of extreme, yet plausible manifestations of key operational risks across the business on a forward-looking basis. This is carried out at least annually and supports external and internal capital requirements as well as informing risk oversight activity across the business; and
- An operational risk appetite framework that articulates the level of operational risk exposure the business is willing to tolerate, covering all operational risk categories, and sets out escalation processes for breaches of appetite.

Outputs from these processes and activities performed by individual business units are monitored by the Group Risk function, which provides an aggregated view of the risk profile across the business to the Group Risk Committee and Board.

These core framework components are embedded across the Group via the Group Operational Risk Policy and Standards documents, which set out the key principles and minimum standards for the management of operational risk across the Group.

The Group Operational Risk Policy, standards and operational risk appetite framework sit alongside other risk policies and standards that individually engage with key operational risks, including outsourcing and third-party supply, business continuity, financial crime, technology and data, operations processes and extent of transformation.

These policies and standards include subject matter expert-led processes that are designed to identify, assess, manage and control operational risks, including:

- A transformation risk framework that assesses, manages and reports on the end-to-end transformation life cycle, project prioritisation and the risks, interdependencies and possible conflicts arising from a large portfolio of transformation activities;
- Internal and external review of cyber security capability and defences;
- Regular updating and testing of elements of disaster-recovery plans and the Critical Incident Procedure process;
- Group and business unit-level compliance oversight and testing in respect of adherence with in-force regulations;
- Regulatory change teams in place to assist the business in proactively adapting and complying with regulatory developments;
- On financial crime risks, screening and transaction monitoring systems are in place and a programme of compliance control monitoring reviews is undertaken, as well as regular risk assessments;
- A framework is in place for emerging risk identification and analysis in order to capture, monitor and allow us to prepare for operational risks that may crystallise beyond the short-term horizon;
- Corporate insurance programmes to limit the financial impact of operational risks; and
- Reviews of key operational risks and challenges within Group and business unit business plans.

These activities are fundamental in maintaining an effective system of internal control, and as such outputs from these also inform core RCA, incident management and scenario analysis processes and reporting on operational risk. Furthermore, they also ensure that operational risk considerations are embedded in key business decision-making, including material business approvals and in setting and challenging the Group's strategy.

c. Insurance risks

Insurance risk makes up a significant proportion of Prudential's overall risk exposure. The profitability of its businesses depends on a mix of factors, including levels of, and trends in, mortality (policyholders dying), morbidity (policyholders becoming ill) and policyholder behaviour (variability in how customers interact with their policies, including utilisation of withdrawals, take-up of options and guarantees and persistency, ie lapsing of policies), and increases in the costs of claims, including the level of medical expenses increases over and above price inflation (claim inflation).

The Group has appetite for retaining insurance risks in order to create shareholder value in the areas where it believes it has expertise and controls to manage the risk and can support such risk with its capital and solvency position.

The principal drivers of the Group's insurance risk vary across its business units. Across Asia, where a significant volume of health and protection business is written, the most significant insurance risks are morbidity risk, persistency risk, and medical inflation risk. In Jackson, policyholder behaviour risk is particularly material, especially in the take up of options and guarantees on variable annuity business.

In Asia, Prudential writes significant volumes of health and protection business, and so a key assumption is the rate of medical inflation, which is often in excess of general price inflation. There is a risk that the expenses of medical treatment increase more than expected, so the medical claim cost passed on to Prudential is higher than anticipated. Medical expense inflation risk is best mitigated by retaining the right to reprice our products each year and by having suitable overall claim limits within our policies, either limits per type of claim or in total across a policy. Prudential's morbidity risk is mitigated by appropriate underwriting when policies are issued and claims are received. Our morbidity assumptions reflect our recent experience and expectation of future trends for each relevant line of business.

The Group's persistency assumptions reflect similarly a combination of recent past experience for each relevant line of business and expert judgement, especially where a lack of relevant and credible experience data exists. Any expected change in future persistency is also reflected in the assumptions. Persistency risk is managed by appropriate training and sales processes (including active customer engagement and service quality) and managed locally post-sale through regular experience monitoring and the identification of common characteristics of business with high lapse rates. Where appropriate, allowance is made for the relationship (either assumed or observed historically) between persistency and investment returns and any additional risk is accounted for. Modelling this dynamic policyholder behaviour is particularly important when assessing the likely take-up rate of options embedded within certain products. The effect of persistency on the Group's financial results can vary but depends mostly on the value of the product features and market conditions.

Prudential's insurance risks are managed and mitigated using the following:

- The Group's insurance, product and underwriting risk policies;
- The risk appetite statements, limits and triggers;
- Using persistency, morbidity and longevity assumptions that reflect recent experience and expectation of future trends, and industry data and expert judgement where appropriate;
- Using reinsurance to mitigate mortality and morbidity risks;
- Ensuring appropriate medical underwriting when policies are issued and appropriate claims management practices when claims are received in order to mitigate morbidity risk;
- Maintaining the quality of sales processes, training and using initiatives to increase customer retention in order to mitigate persistency risk;
- Using product repricing and other claims management initiatives in order to mitigate medical expense inflation risk; and
- Regular deep dive assessments.

6.3 Risks related to regulatory and legal compliance

Regulatory risks may impact Prudential's business or the way in which it is conducted. This covers a broad range of risks including changes in government policy and legislation, capital control measures, and new regulations at either national or international level. In addition to the risks arising from regulatory change, the breadth of local and Group-wide regulatory arrangements presents the risk that regulatory requirements are not fully met, resulting in specific regulator interventions or actions including retrospective interpretation of standards by regulators which may result in regulatory censure or significant additional costs to the business.

On 21 October 2019, the Hong Kong IA became Prudential's Group-wide supervisor, and the Group continues to engage with the supervisor on the Group-wide Supervision (GWS) Framework, which is expected to be finalised in the second half of 2020.

The focus of some governments toward more protectionist or restrictive economic and trade policies could impact on the degree and nature of regulatory changes and Prudential's competitive position in some geographic markets. This could take effect, for example, through increased friction in cross-border trade, capital controls or measures favouring local enterprises such as changes to the maximum level of non-domestic ownership by foreign companies. These developments continue to be monitored by the Group at a national and global level and these considerations form part of the Group's ongoing engagement with government policy teams and regulators.

Efforts to curb systemic risk and promote financial stability are also under way. At the international level, the Financial Stability Board (FSB) continues to develop recommendations for the asset management and insurance sectors, including ongoing assessment of systemic risk measures. The International Association of Insurance Supervisors (IAIS) has continued its focus on the following two key developments.

The IAIS is developing the ICS as part of ComFrame. The implementation of ICS will be conducted in two phases – a five-year monitoring phase followed by an implementation phase. ComFrame will more generally establish a set of common principles and standards designed to assist supervisors in addressing risks that arise from insurance groups with operations in multiple

jurisdictions. The ComFrame proposals, including ICS, could result in enhanced capital and regulatory measures for IAIGs, for which Prudential is likely to satisfy the criteria. The Aggregation Method is one of the approaches being considered as part of the ICS and the related proposals are being led by the National Association of Insurance Commissioners (NAIC). Alongside the current ICS developments, the NAIC is also developing its Group Capital Calculation (GCC) for the supervision of insurance groups in the US. The GCC is intended to be a risk-based capital (RBC) aggregation methodology. In developing the GCC, the NAIC will also consider Group capital developments by the US Federal Reserve Board, which will inform the US regulatory association in its construction of a US group capital calculation.

The FSB has endorsed a new holistic framework (HF) for systemic risk for implementation by the IAIS in 2020 and suspended G-SII designations until a review to be undertaken in 2022. Many of the previous G-SII measures have already been adopted into the insurance core principles (ICPs) and ComFrame – the common framework for the supervision of internationally active insurance groups (IAIGs). Prudential is likely to satisfy the criteria of an IAIG and therefore continue to be subject to these measures. The HF also includes a monitoring element for the identification of a build-up of systemic risk and to enable supervisors to take action where appropriate. The IAIS has already consulted on an application paper on the liquidity risk elements introduced into the ICPs and ComFrame with a further consultation focused on macroeconomic elements expected to follow in 2021.

In certain jurisdictions in which Prudential operates there are also a number of ongoing policy initiatives and regulatory developments that are having, and will continue to have, an impact on the way Prudential is supervised. Decisions taken by regulators, including those related to solvency requirements, corporate or governance structures, capital allocation, financial reporting and risk management may have an impact on our business.

In May 2017, the International Accounting Standards Board (IASB) published IFRS 17 which will introduce fundamental changes to the IFRS-based reporting of insurance entities that prepare accounts according to IFRS from 2021. In June 2019, the IASB published an exposure draft proposing a number of targeted amendments to this new standard including the deferral of the effective date by one year from 2021 to 2022. As a result of comments on this exposure draft, the IASB plans to redeliberate on a number of areas of IFRS 17, with an amended standard expected to be issued in mid-2020. IFRS 17 is expected to, among other things, include altering the timing of IFRS profit recognition, and the implementation of the standard is likely to require changes to the Group's IT, actuarial and finance systems. The Group is reviewing the complex requirements of this standard and considering its potential impact.

In the US, various initiatives are under way to introduce fiduciary obligations for distributors of investment products, which may reshape the distribution of retirement products. Jackson has introduced fee-based variable annuity products in response to the potential introduction of such rules, and we anticipate that the business's strong relationships with distributors, history of product innovation and efficient operations should further mitigate any impacts.

In Asia, regulatory regimes are developing at different speeds, driven by a combination of global factors and local considerations. New local capital rules and requirements could be introduced in these and other regulatory regimes that challenge legal or ownership structures, or current sales practices, or could be applied to sales made prior to their introduction retrospectively, which could have a negative impact on Prudential's business or reported results.

In July 2014, the Financial Stability Board (FSB) announced widespread reforms to address the integrity and reliability of inter-bank offer rates (IBORs). The discontinuation of IBORs in their current form and their replacement with alternative risk-free reference rates such as the Sterling Overnight Index Average benchmark (SONIA) in the UK and the Secured Overnight Financing Rate (SOFR) in the US could, among other things, impact the Group through an adverse effect on the value of Prudential's assets and liabilities which are linked to, or which reference IBORs, a reduction in market liquidity during any period of transition and increased legal and conduct risks to the Group arising from changes required to documentation and its related obligations to its stakeholders.

Risk management and mitigation of regulatory risk at Prudential includes the following:

- Risk assessment of the Business Plan which includes consideration of current strategies;
- Close monitoring and assessment of our business environment and strategic risks;
- The consideration of risk themes in strategic decisions; and
- Ongoing engagement with national regulators, government policy teams and international standard setters.

6.4 Environmental, social and governance risks

The business environment in which Prudential operates is continually changing and responding effectively to those material risks associated with ESG themes is crucial in maintaining Prudential's brand and reputation, its ability to attract and retain customers and staff, and in turn its financial performance and its long-term strategy. The Group maintains active engagement with its key stakeholders as it responds to ESG-related matters, including investors, customers, employees, governments, policymakers and regulators in its key markets, as well as with international institutions – all of whom have expectations in this area which may differ.

Policies and procedures to support how the Group operates in relation to certain ESG topics are included in the Group Governance Manual. Prudential manages key ESG issues through a multi-disciplinary approach with functional ownership for ESG topics. The ESG Executive Committee coordinates these activities and seeks, as one of its aims, to ensure a consistent approach in managing ESG considerations in its business activities, including investment activities. It is supported by senior functional leaders and representatives from the Group's business units, including the chief investment officers of the Group's asset managers.

The environmental risks associated with climate change is one ESG area that poses significant risks to Prudential and its customers. The global transition to a lower carbon economy could potentially see the financial assets of carbon-intensive companies re-price as a result of facing significantly higher costs or decreasing demand for their products and services. The speed of this transition, including the extent to which it is orderly and managed, will be influenced by factors such as public policy, technology and changes in market or investor sentiment. This 'transition risk' may adversely impact the valuation of investments held by the Group. The Group expects the physical impacts of climate change, driven by both specific short-term climate-related

events such as natural disasters and longer-term changes in the natural environment, to increasingly influence the longevity, mortality and morbidity risk assessments of the Group's product offerings. Climate-driven change in countries in which Prudential, or its key third parties, operate could impact on its operational resilience and could change its claims profile. More information about the activities the Group is undertaking to increase its understanding and risk management of these climate-related risks can be found in the climate section of the ESG Summary.

Social risks that could impact Prudential include the emerging population risks associated with public health trends (such as an increase in obesity) and demographic changes (such as population urbanisation) which may impact customer lifestyles and therefore may impact claims against the Group's insurance product offerings. As a life and health insurer, we are committed to playing a greater role in preventing and postponing illness in order to protect our customers. Further information about how we are investing in artificial intelligence technology to enable access to an affordable and quality healthcare digital offering can be found within the Pulse case study included in the ESG Summary. Other social risks may arise from a failure to consider the rights, diversity, well-being, and interests of people and communities in which the Group, or its third parties, operates. These risks are increased as Prudential operates in multiple jurisdictions with distinct local cultures and considerations. As an employer, the Group is also exposed to the risk of being unable to attract, retain and develop highly-skilled staff, which can be increased where Prudential does not have responsible working practices.

A failure to maintain high standards of corporate governance may adversely impact the Group and its customers, staff and employees, through poor decision-making and a lack of oversight of its key risks, particularly in joint ventures or partnerships where Prudential does not have direct overall control. Poor governance may arise where key governance committees have insufficient independence, a lack of diversity, skills or experience in their members, or unclear (or insufficient) oversight responsibilities and mandates. Inadequate oversight over remuneration increases the risk of poor senior management behaviours. Prudential operates across multiple jurisdictions and has a group and subsidiary governance structure which may add further complexity to these considerations.

Further information on how Prudential addresses material risks associated with ESG themes are included in the ESG Summary.

Notes

- 1 Excluding assets held to cover linked liabilities and those of the consolidated unit trusts and similar funds.
- 2 Based on hierarchy of Standard & Poor's, Moody's and Fitch, where available and if unavailable, NAIC and other external ratings have been used.
- 3 Source of segmentation: Bloomberg Sector, Bloomberg Group and Merrill Lynch. Anything that cannot be identified from the three sources noted is classified as other. Excludes debt securities from other operations.

Corporate governance

The Directors confirm that the Company has complied with all the provisions of the Corporate Governance Code issued by the Hong Kong Stock Exchange Limited (HK Code) throughout the accounting period, except that the Company does not comply with provision B.1.2(d) of the HK Code which requires companies, on a comply or explain basis, to have a remuneration committee which makes recommendations to a main board on the remuneration of non-executive directors. This provision is not compatible with supporting provision D.2.3 of the UK Corporate Governance Code which recommends the board determines the remuneration of non-executive directors. Prudential has chosen to adopt a practice in line with the recommendations of the UK Corporate Governance Code.

The Directors also confirm that the financial results contained in this document have been reviewed by the Group Audit Committee.

Risk Committee changes

Today we are announcing that Howard Davies, a Non-executive Director and Chairman of the Risk Committee, will retire from the Board at the conclusion of the Annual General Meeting on 14 May 2020.

We are also pleased to announce that Jeremy Anderson, a Non-executive Director since 1 January 2020, will succeed Howard Davies as Chairman of the Risk Committee and as a member of the Nomination & Governance Committee, also at the conclusion of the Annual General Meeting on 14 May 2020.

The Company confirms that there is no further information required to be disclosed pursuant to Rule 13.51(2) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited in respect of Howard Davies retiring from the Board.

IFRS disclosure and additional unaudited financial information
Prudential plc 2019 results
International Financial Reporting Standards (IFRS) basis results

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CONSOLIDATED INCOME STATEMENT

	Note	2019 \$m	2018* \$m
Continuing operations:			
Gross premiums earned		45,064	45,614
Outward reinsurance premiums		(1,583)	(1,183)
Earned premiums, net of reinsurance		43,481	44,431
Investment return		49,555	(9,117)
Other income		700	531
Total revenue, net of reinsurance		93,736	35,845
Benefits and claims		(85,475)	(26,518)
Reinsurers' share of benefits and claims		2,985	1,598
Movement in unallocated surplus of with-profits funds		(1,415)	1,494
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance		(83,905)	(23,426)
Acquisition costs and other expenditure	B2	(7,283)	(8,527)
Finance costs: interest on core structural borrowings of shareholder-financed businesses		(516)	(547)
(Loss) on disposal of businesses and corporate transactions	D1.1	(142)	(107)
Total charges net of reinsurance		(91,846)	(32,607)
Share of profit from joint ventures and associates net of related tax		397	319
Profit before tax (<i>being tax attributable to shareholders' and policyholders' returns</i>) ^{note}		2,287	3,557
Remove tax charge attributable to policyholders' returns		(365)	(107)
Profit before tax attributable to shareholders' returns	B1.1	1,922	3,450
Total tax charge attributable to shareholders' and policyholders' returns	B4.1	(334)	(676)
Remove tax charge attributable to policyholders' returns		365	107
Tax credit (charge) attributable to shareholders' returns	B4.1	31	(569)
Profit from continuing operations		1,953	2,881
Discontinued UK and Europe operations' profit after tax	D2	1,319	1,142
Re-measurement of discontinued operations on demerger	D2	188	—
Cumulative exchange loss recycled from other comprehensive income	D2	(2,668)	—
(Loss) profit from discontinued operations		(1,161)	1,142
Profit for the year		792	4,023

Attributable to:

Equity holders of the Company			
From continuing operations		1,944	2,877
From discontinued operations		(1,161)	1,142
Non-controlling interests from continuing operations		9	4
Profit for the year		792	4,023

Earnings per share (in cents)	Note	2019	2018*
Based on profit attributable to equity holders of the Company:			
Basic			
Based on profit from continuing operations	B5	75.1¢	111.7¢
Based on (loss) profit from discontinued operations		(44.8)¢	44.3¢
		30.3¢	156.0¢
Diluted			
Based on profit from continuing operations		75.1¢	111.7¢
Based on (loss) profit from discontinued operations		(44.8)¢	44.3¢
		30.3¢	156.0¢

Dividends per share (in cents)	Note	2019	2018
Dividends relating to reporting year:			
First interim ordinary dividend	B6	20.29¢	20.55¢
Second interim ordinary dividend		25.97¢	42.89¢
Total		46.26¢	63.44¢
Dividends paid in reporting year:			
Current year first interim dividend	B6	20.29¢	20.55¢
Second interim ordinary dividend for prior year		42.89¢	43.79¢
Total		63.18¢	64.34¢

* The 2018 comparative results have been re-presented from those previously published to reflect the change in the Group's presentation currency from pounds sterling to US dollars (as described in note A1) and the reclassification of the Group's UK and Europe operations as discontinued operations in 2019 (as described in note A2).

Note

This measure is the formal profit before tax measure under IFRS. It is not the result attributable to shareholders principally because total corporate tax of the Group includes those on the income of consolidated with-profits and unit-linked funds that, through adjustments to benefits, are borne by policyholders. These amounts are required to be included in the tax charge of the Company under IAS 12. Consequently, the IFRS profit before tax measure is not representative of pre-tax profit attributable to shareholders as it is determined after deducting the cost of policyholder benefits and movements in the liability for unallocated surplus of with-profits funds after adjusting for tax borne by policyholders.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2019 \$m	2018* \$m
Profit for the year from continuing operations		1,953	2,881
Other comprehensive income (loss) from continuing operations:			
Items that may be reclassified subsequently to profit or loss			
Exchange movements on foreign operations and net investment hedges:			
Exchange movements arising during the year		152	(39)
Related tax		(15)	7
		137	(32)
Valuation movements on available-for-sale debt securities:			
Net unrealised gains (losses) on holdings		4,208	(2,144)
Deduct net gains included in the income statement on disposal and impairment		(185)	(15)
		4,023	(2,159)
Related change in amortisation of deferred acquisition costs	C5.2	(631)	328
Related tax		(713)	385
		2,679	(1,446)
Total items that may be reclassified subsequently to profit or loss		2,816	(1,478)
Items that will not be reclassified to profit or loss			
Shareholders' share of actuarial gains and losses on defined benefit pension schemes:			
Net actuarial (losses) gains on defined benefit pension schemes		(108)	26
Related tax		19	(5)
Total items that will not be reclassified to profit or loss		(89)	21
Other comprehensive income (loss) from continuing operations		2,727	(1,457)
Total comprehensive income from continuing operations		4,680	1,424
(Loss) profit from discontinued operations	D2	(1,161)	1,142
Cumulative exchange loss recycled through profit or loss	D2	2,668	–
Other items, net of related tax	D2	203	(605)
Total comprehensive income from discontinued operations		1,710	537
Total comprehensive income for the year		6,390	1,961
Attributable to:			
Equity holders of the Company			
From continuing operations		4,669	1,419
From discontinued operations		1,710	537
Non-controlling interests from continuing operations		11	5
Total comprehensive income for the year		6,390	1,961

* The 2018 comparative results have been re-presented from those previously published to reflect the change in the Group's presentation currency from pounds sterling to US dollars (as described in note A1) and the reclassification of the Group's UK and Europe operations as discontinued operations in 2019 (as described in note A2).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 Dec 2019 \$m note (iii)	31 Dec 2018 \$m notes (iii),(iv)	1 Jan 2018 \$m notes (iii),(iv)
Assets				
Goodwill	C5.1	969	2,365	2,005
Deferred acquisition costs and other intangible assets	C5.2	17,476	15,185	14,896
Property, plant and equipment ^{note (i)}		1,065	1,795	1,067
Reinsurers' share of insurance contract liabilities		13,856	14,193	13,086
Deferred tax assets	C8	4,075	3,305	3,554
Current tax recoverable		492	787	829
Accrued investment income		1,641	3,501	3,620
Other debtors		2,054	5,207	4,009
Investment properties		25	22,829	22,317
Investments in joint ventures and associates accounted for using the equity method		1,500	2,207	1,916
Loans	C3.3	16,583	22,938	23,054
Equity securities and holdings in collective investment schemes ^{note (ii)}		247,281	273,484	302,203
Debt securities ^{note (ii)}	C3.2	134,570	223,333	231,835
Derivative assets		1,745	4,450	6,495
Other investments ^{note (ii)}		1,302	8,294	7,605
Deposits		2,615	15,023	15,200
Assets held for sale		–	13,472	51
Cash and cash equivalents		6,965	15,442	14,461
Total assets	C1	454,214	647,810	668,203
Equity				
Shareholders' equity		19,477	21,968	21,762
Non-controlling interests		192	23	9
Total equity		19,669	21,991	21,771
Liabilities				
Insurance contract liabilities	C4.1	380,143	410,947	443,952
Investment contract liabilities with discretionary participation features	C4.1	633	85,858	84,789
Investment contract liabilities without discretionary participation features	C4.1	4,902	24,481	27,589
Unallocated surplus of with-profits funds	C4.1	4,750	20,180	22,931
Core structural borrowings of shareholder-financed businesses	C6.1	5,594	9,761	8,496
Operational borrowings ^{note (i)}	C6.2	2,645	6,289	7,450
Obligations under funding, securities lending and sale and repurchase agreements		8,901	8,901	7,660
Net asset value attributable to unit holders of consolidated investment funds		5,998	14,839	12,025
Deferred tax liabilities	C8	5,237	5,122	6,378
Current tax liabilities		396	723	726
Accruals, deferred income and other liabilities		14,488	19,421	19,190
Provisions		466	1,373	1,519
Derivative liabilities		392	4,465	3,727
Liabilities held for sale		–	13,459	–
Total liabilities	C1	434,545	625,819	646,432
Total equity and liabilities		454,214	647,810	668,203

Notes

- (i) As at 1 January 2019, the Group applied IFRS 16 'Leases', using the modified retrospective approach. Under this approach, comparative information is not restated. The application of the standard has resulted in the recognition of an additional lease liability and a corresponding 'right-of-use' asset of a similar amount as at 1 January 2019. See note A3 for further details.
- (ii) Included within equity securities and holdings in collective investment schemes, debt securities and other investments are \$90 million of lent securities as at 31 December 2019 (31 December 2018: \$10,543 million, of which \$107 million were from continuing operations).
- (iii) The Group has adopted a change in its presentation currency from pounds sterling to US dollars at 31 December 2019 as described in note A1. Accordingly, the 31 December 2018 and 1 January 2018 comparative statements of financial position and the 2018 related notes have been re-presented retrospectively from the previously published results. As a result of this change, the statement of financial position as at 1 January 2018 has been re-presented in accordance with IAS 1.
- (iv) The 31 December 2018 and 1 January 2018 comparative statements of financial position included discontinued UK and Europe operations.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2019 \$m	2018* \$m
Continuing operations:			
Cash flows from operating activities			
Profit before tax (<i>being tax attributable to shareholders' and policyholders' returns</i>)		2,287	3,557
Adjustments to profit before tax for non-cash movements in operating assets and liabilities:			
Investments		(60,812)	2,236
Other non-investment and non-cash assets		(2,487)	(1,996)
Policyholder liabilities (including unallocated surplus)		56,067	(1,641)
Other liabilities (including operational borrowings)		5,097	860
Investment income and interest payments included in profit before tax		(4,803)	(4,148)
Operating cash items:			
Interest receipts and payments		4,277	3,912
Dividend receipts		978	744
Tax paid		(717)	(477)
Other non-cash items		(96)	308
Net cash flows from operating activities		(209)	3,355
Cash flows from investing activities			
Purchases of property, plant and equipment		(64)	(134)
Acquisition of business and intangibles ^{note (i)}		(635)	(442)
Disposal of businesses		375	–
Net cash flows from investing activities		(324)	(576)
Cash flows from financing activities			
Structural borrowings of shareholder-financed operations: ^{note (ii)}	C6.1		
Issue of subordinated debt, net of costs		367	2,079
Redemption of subordinated debt		(504)	(553)
Fees paid to modify terms and conditions of debt issued by the Group		(182)	(44)
Interest paid		(526)	(502)
Equity capital:			
Issues of ordinary share capital		22	23
External dividends		(1,634)	(1,662)
Net cash flows from financing activities		(2,457)	(659)
Net (decrease) increase in cash and cash equivalents from continuing operations^{note (iii)}		(2,990)	2,120
Net cash flows from discontinued operations ^{note (iii)}	D2	(5,690)	(610)
Cash and cash equivalents at beginning of year		15,442	14,461
Effect of exchange rate changes on cash and cash equivalents		203	(529)
Cash and cash equivalents at end of year		6,965	15,442
<i>Comprising:</i>			
<i>Cash and cash equivalents from continuing operations</i>		6,965	9,394
<i>Cash and cash equivalents from discontinued operations</i>	D2	–	6,048

* The 2018 comparative results have been re-presented from those previously published to reflect the change in the Group's presentation currency from pounds sterling to US dollars (as described in note A1) and the reclassification of the Group's UK and Europe operations as discontinued operations in 2019 (as described in note A2).

Notes

- (i) Cash flows arising from the acquisition of business and intangibles includes amounts paid for distribution rights.
- (ii) Structural borrowings of shareholder-financed businesses exclude borrowings to support short-term fixed income securities programmes, non-recourse borrowings of investment subsidiaries of shareholder-financed businesses and other borrowings of shareholder-financed businesses. Cash flows in respect of these borrowings are included within cash flows from operating activities. The changes in the carrying value of the structural borrowings of shareholder-financed businesses for the Group are analysed in note C6.1.
- (iii) The cash flows shown above are presented excluding any transactions between continuing and discontinued operations.

NOTES TO PRIMARY STATEMENTS

A Basis of preparation

A1 Basis of preparation and exchange rates

These statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU) as required by EU law (IAS Regulation EC1606/2032). EU-endorsed IFRS may differ from IFRS issued by the IASB if, at any point in time, new or amended IFRS have not been endorsed by the EU. At 31 December 2019, there were no unendorsed standards effective for the two years ended 31 December 2019 which impact the consolidated financial statements of the Group and there were no differences between IFRS endorsed by the EU and IFRS issued by the IASB in terms of their application to the Group. For financial years beginning after 31 December 2020, the Group will prepare its consolidated financial statements in accordance with UK-adopted international accounting standards, instead of the EU-endorsed IFRS.

The Group IFRS accounting policies are the same as those applied for the year ended 31 December 2018 with the exception of the adoption of the new and amended accounting standards as described in note A3.

The financial information set out in this announcement does not constitute the Company's statutory accounts for the years ended 31 December 2019 or 2018 but is derived from those accounts. The auditors have reported on the 2019 statutory accounts. Statutory accounts for 2018 have been delivered to the registrar of companies, and those for 2019 will be delivered following the Company's Annual General Meeting. Their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

Exchange rates

Following the demerger of its UK and Europe operations, the Directors have elected to change the Group's presentation currency in these financial statements from pounds sterling to US dollars which better reflects the economic footprint of our business going forward. The Group believes that the presentation currency change will give investors and other stakeholders a clearer understanding of Prudential's performance over time. The change in presentation currency is a voluntary change which is accounted for retrospectively in the comparative information and all comparative statements and notes have been restated accordingly applying the foreign exchange translation principles as set out below.

The exchange rates applied for balances and transactions in the presentation currency of the Group, US dollars (\$), and other currencies were:

\$: local currency	Closing rate at 31 Dec 2019	Average rate for 2019	Closing rate at 31 Dec 2018	Average rate for 2018	Opening rate at 1 Jan 2018
China	6.97	6.91	6.87	6.61	6.51
Hong Kong	7.79	7.84	7.83	7.84	7.82
Indonesia	13,882.50	14,140.84	14,380.00	14,220.82	13,567.00
Malaysia	4.09	4.14	4.13	4.03	4.05
Singapore	1.34	1.36	1.36	1.35	1.34
Thailand	29.75	31.05	32.56	32.30	32.59
UK	0.75	0.78	0.79	0.75	0.74
Vietnam	23,172.50	23,227.64	23,195.00	23,017.17	22,708.16

Foreign exchange translation

In order to present the consolidated financial statements in US dollars, the results and financial position of entities not using US dollars as functional currency (ie the currency of the primary economic environment in which the entity operates) must be translated into the US dollars. The general principle for converting foreign currency transactions is to translate at the functional currency spot rate prevailing at the date of the transactions. This includes external dividends determined and paid to shareholders in pounds sterling. Prudential will determine and declare its dividend in US dollars commencing with dividends paid in 2020, including the 2019 second interim dividend. All assets and liabilities of entities not operating in US dollars are converted at closing exchange rates while all income and expenses are converted at average exchange rates where this is a reasonable approximation of the rates prevailing on transaction dates. The impact of these currency translations is recorded as a separate component in the statement of comprehensive income. At 31 December 2019 the functional currency of the Group's parent company changed to US dollars. The Group and parent company have chosen, for presentational purposes, to retranslate their share capital and share premium as at 31 December 2019 using the closing exchange rate as at that date, and comparative amounts at the relative closing exchange rates. The foreign exchange adjustments arising on the share capital and share premium balances of \$2,797 million (31 December 2018: \$2,668 million) adjust the translation reserve movement in the statement of other comprehensive income. As this amount arises on the translation of the parent company's share capital and share premium, the corresponding impact to the currency translation reserve of \$980 million will never be recycled on disposal of any foreign operations.

During 2019 and 2018, borrowings that are used to provide a hedge against Group equity investments in overseas entities were translated at year end exchange rates and movements recognised in other comprehensive income. Other foreign currency monetary items are translated at year end exchange rates with changes recognised in the income statement.

Certain notes to the financial statements present 2018 comparative information at constant exchange rates (CER), in addition to the reporting at actual exchange rates (AER) used throughout the consolidated financial statements. AER are actual historical exchange rates for the specific accounting period, being the average rates over the period for the income statement and the closing rates at the balance sheet date for the statement of financial position. CER results are calculated by translating prior

period results using the current period foreign exchange rate, ie current period average rates for the income statement and current period closing rates for the statement of financial position.

A2 Discontinued operations

The Group completed the demerger of its UK and Europe operations, M&G plc, from the Prudential plc group on 21 October 2019. In accordance with IFRS 5 'Non-Current Assets Held for Sale and Discontinued Operations', the results of M&G plc have been reclassified as discontinued operations in these consolidated financial statements.

Consistent with IFRS 5 requirements, profit after tax attributable to the discontinued UK and Europe operations in 2019 have been shown in a single line in the income statement with 2018 comparatives being restated accordingly, with further analysis provided in note D2. Notes B1 to B5 have also been prepared on this basis.

IFRS 5 does not permit the comparative 31 December 2018 and 1 January 2018 statement of financial position to be re-presented, as the UK and Europe operations were not reclassified as held for sale at these dates. In the related balance sheet notes, prior year balances have been presented to show the amounts from discontinued operations separately from continuing operations in order to present the results of the continuing operations on a comparable basis. Additionally, in the analysis of movements in Group's assets and liabilities between the beginning and end of the years, the balances of the discontinued UK and Europe operations are removed from the opening balances to show the underlying movements from continuing operations.

Profit from the discontinued UK and Europe operations up to the demerger is presented in the consolidated income statement after the elimination of intragroup transactions with continuing operations where it is appropriate to provide a more meaningful presentation of the position of the Group immediately after the demerger. The statement of cash flows is presented excluding intragroup cash flows between the continuing and discontinued UK and Europe operations up to demerger.

A3 New accounting pronouncements in 2019

IFRS 16 'Leases'

The Group has adopted IFRS 16 'Leases' from 1 January 2019. The new standard brings most leases on-balance-sheet for lessees under a single model, eliminating the distinction between operating and finance leases.

IFRS 16 applies primarily to operating leases of major properties occupied by the Group's businesses where Prudential is a lessee.

Under IFRS 16, these leases are brought onto the Group's statement of financial position with a 'right-of-use' asset being established and a corresponding liability representing the obligation to make lease payments. The rental accrual charge in the income statement under IAS 17 is replaced with a depreciation charge for the 'right-of-use' asset and an interest expense on the lease liability leading to a more front-loaded operating lease cost profile compared to IAS 17.

As permitted by IFRS 16, the Group has chosen to adopt the modified retrospective approach upon transition to the new standard. Under the approach adopted, there is no adjustment to the Group's retained earnings at 1 January 2019 and the Group's 2018 comparative information is not restated. The 'right-of-use' asset and lease liability at 1 January 2019 are set at an amount equal to the discounted remaining lease payments adjusted by any prepaid or accrued lease payment balance immediately before the date of initial application of the standard.

When measuring lease liabilities on adoption, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 3.4 per cent. The aggregate effect of the adoption of the standard on the statement of financial position at 1 January 2019 is shown in the table below:

	Continuing operations \$m	Discontinued operations \$m	Total Group \$m
Effect of adoption of IFRS 16 at 1 January 2019			
Assets			
Property, plant and equipment (right-of-use assets)	527	368	895
Total assets	527	368	895
Liabilities			
Operational borrowings (lease liability)	541	414	955
Accruals, deferred income and other liabilities (accrued lease payment balance under IAS 17)	(14)	(46)	(60)
Total liabilities	527	368	895

Reconciliation of IFRS 16 lease liability and IAS 17 lease commitments

	Total Group \$m
IFRS 16 operating lease liability shown in the table above	955
Add back impact of discounting	210
IFRS 16 operating lease liability on an undiscounted basis	1,165
Difference in lease rental payments due to probable renewals or early termination decisions reflected above	(48)
Other	(6)
Total operating lease commitments at 31 December 2018*	1,111

* As disclosed in note D5 of the Group's IFRS financial statements for the year ended 31 December 2018 and after excluding \$76 million for the amount relating to certain lease commitments from the central operations to the discontinued UK with-profits fund.

The Group has applied the practical expedient to grandfather the definition of a lease on transition. This means that IFRS 16 has been applied to all contracts that were identified as leases in accordance with IAS 17 and IFRIC 4 '*Determining whether an Arrangement contains a Lease*' entered into before 1 January 2019. Therefore, the definition of a lease under IFRS 16 is applied only to contracts entered into or changed on or after 1 January 2019.

The Group has used the following practical expedients, in addition to the aforementioned, when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applying a single discount rate to a portfolio of leases with similar characteristics. Accordingly, for such portfolios, the incremental borrowing rates used to discount the future lease payments will be determined based on market specific risk-free rates adjusted with a margin/spread to reflect the Group's credit standing, lease term and the outstanding lease payments.
- Using hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Other new accounting pronouncements

In addition to the above, the following new accounting pronouncements were also effective from 1 January 2019:

- IFRIC Interpretation 23 '*Uncertainty over Income Tax Treatments*';
- Amendments to IAS 28 '*Long-term Interests in Associates and Joint Ventures*';
- Amendments to IFRS 9 '*Prepayment Features with Negative Compensation*';
- Annual Improvements to IFRSs 2015-2017 cycle; and
- Amendments to IAS 19 '*Plan Amendment, Curtailment or Settlement*'.

The Group has applied the principles within the Amendments to IAS 19 '*Plan Amendment, Curtailment or Settlement*' when accounting for the changes to the pension benefits of its UK defined benefit schemes during the year. The other pronouncements have had no significant impact on the Group financial statements.

B EARNINGS PERFORMANCE

B1 Analysis of performance by segment

B1.1 Segment results

	Note	2019 \$m	2018 \$m		2019 vs 2018 %	
			AER note (i)	CER note (i)	AER note (i)	CER note (i)
Asia						
Insurance operations	B3(a)	2,993	2,646	2,633	13%	14%
Asset management		283	242	239	17%	18%
Total Asia		3,276	2,888	2,872	13%	14%
US						
Jackson (US insurance operations)	B3(b)	3,038	2,552	2,552	19%	19%
Asset management		32	11	11	191%	191%
Total US		3,070	2,563	2,563	20%	20%
Total segment profit from continuing operations		6,346	5,451	5,435	16%	17%
Other income and expenditure						
Investment return and other income		50	70	67	(29)%	(25)%
Interest payable on core structural borrowings ^{note (ii)}		(516)	(547)	(523)	6%	1%
Corporate expenditure ^{note (iii)}		(460)	(490)	(477)	6%	4%
Total other income and expenditure		(926)	(967)	(933)	4%	1%
Restructuring costs ^{note (iv)}		(110)	(75)	(73)	(47)%	(51)%
Adjusted IFRS operating profit based on longer-term investment returns						
		5,310	4,409	4,429	20%	20%
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(3,203)	(791)	(796)	(305)%	(302)%
Amortisation of acquisition accounting adjustments ^{note (v)}		(43)	(61)	(61)	30%	30%
(Loss) on disposal of businesses and corporate transactions	D1	(142)	(107)	(106)	(33)%	(34)%
Profit from continuing operations before tax attributable to shareholders						
		1,922	3,450	3,466	(44)%	(45)%
Tax credit (charge) attributable to shareholders' returns	B4	31	(569)	(570)	105%	105%
Profit from continuing operations		1,953	2,881	2,896	(32)%	(33)%
Profit from discontinued operations	D2	1,319	1,142	1,092	15%	21%
Re-measurement of discontinued operations on demerger	D2	188	–	–	–%	–%
Cumulative exchange loss recycled from other comprehensive income	D2	(2,668)	–	–	–%	–%
(Loss) profit from discontinued operations		(1,161)	1,142	1,092	(202)%	(206)%
Profit for the year		792	4,023	3,988	(80)%	(80)%
Attributable to:						
Equity holders of the Company						
From continuing operations		1,944	2,877	2,892	(32)%	(33)%
From discontinued operations		(1,161)	1,142	1,092	(202)%	(206)%
Non-controlling interests from continuing operations		9	4	4	125%	125%
		792	4,023	3,988	(80)%	(80)%

	Note	2019	2018		2019 vs 2018 %	
			AER note (i)	CER note (i)	AER note (i)	CER note (i)
Based on adjusted IFRS operating profit based on longer-term investment returns, net of tax, from continuing operations ^{note (vi)}						
	B5	175.0¢	145.2¢	146.0¢	21%	20%
Based on profit for the year from continuing operations						
	B5	75.1¢	111.7¢	112.5¢	(33)%	(33)%
Based on (loss) profit for the year from discontinued operations						
	B5	(44.8)¢	44.3¢	42.4¢	(201)%	(206)%

Notes

- (i) For definitions of AER and CER refer to note A1.
- (ii) Interest charged to the income statement on debt that was substituted to M&G plc in October 2019 for 2019 was \$(179) million (2018: \$(128) million).
- (iii) Corporate expenditure as shown above is primarily for head office functions in London and Hong Kong.
- (iv) Restructuring costs include group-wide costs incurred for IFRS 17 implementation in 2019 from continuing operations.
- (v) Amortisation of acquisition accounting adjustments principally relate to the REALIC business of Jackson which was acquired in 2012.
- (vi) Tax charges have been reflected as operating and non-operating in the same way as for the pre-tax items. Further details on tax charges are provided in note B4.

B1.2 Short-term fluctuations in investment returns on shareholder-backed business

	2019 \$m	2018 \$m
Asia operations ^{note (i)}	657	(684)
US operations ^{note (ii)}	(3,757)	(134)
Other operations	(103)	27
Total	(3,203)	(791)

(i) Asia operations

In Asia, the positive short-term fluctuations of \$657 million (2018: negative \$(684) million) principally reflect net value movements on shareholders' assets and related liabilities following decreases in bond yields during the year.

(ii) US operations

The short-term fluctuations in investment returns for US insurance operations are reported net of the related credit for amortisation of deferred acquisition costs of \$1,248 million as shown in note C5.2(i) (2018: debit of \$(152) million) and comprise amounts in respect of the following items:

	2019 \$m	2018 \$m
Net equity hedge result ^{note (a)}	(4,582)	(78)
Other than equity-related derivatives ^{note (b)}	678	(85)
Debt securities ^{note (c)}	156	(42)
Equity-type investments: actual less longer-term return	18	51
Other items	(27)	20
Total net of related DAC amortisation	(3,757)	(134)

Notes

(a) Net equity hedge result

The purpose of the inclusion of this item in short-term fluctuations in investment returns is to segregate the amount included in pre-tax profit that relates to the accounting effect of market movements on both the value of guarantees in Jackson's variable annuity and fixed index annuity products and on the related derivatives used to manage the exposures inherent in these guarantees. The level of fees recognised in non-operating profit is determined by reference to that allowed for within the reserving basis. The variable annuity guarantees are valued in accordance with either Accounting Standards Codification (ASC) Topic 820, Fair Value Measurements and Disclosures (formerly FAS 157) or ASC Topic 944, Financial Services – Insurance (formerly SOP 03-01) depending on the type of guarantee. Both approaches require an entity to determine the total fee ('the fee assessment') that is expected to fund future projected benefit payments arising using the assumptions applicable for that method. The method under FAS 157 requires this fee assessment to be fixed at the time of issue. As the fees included within the initial fee assessment are earned, they are included in non-operating profit to match the corresponding movement in the guarantee liability. Other guarantee fees are included in operating profit, which in 2019 was \$699 million (2018: \$657 million), net of related DAC amortisation. As the Group applies US GAAP for the measured value of the product guarantees, the net equity hedge result also includes asymmetric impacts where the measurement bases of the liabilities and associated derivatives used to manage the Jackson annuity business differ.

The net equity hedge result therefore includes significant accounting mismatches and other factors that do not represent the economic result. These other factors include:

- The variable annuity guarantees and fixed index annuity embedded options being only partially fair valued under 'grandfathered' US GAAP;
- The interest rate exposure being managed through the other than equity-related derivative programme explained in note (b) below; and
- Jackson's management of its economic exposures for a number of other factors that are treated differently in the accounting frameworks such as future fees and assumed volatility levels.

The net equity hedge result can be summarised as follows:

	2019 \$m	2018 \$m
Fair value movements on equity hedge instruments*	(5,314)	399
Accounting value movements on the variable and fixed index annuity guarantee liabilities	(22)	(1,194)
Fee assessments net of claim payments	754	717
Total net of related DAC amortisation	(4,582)	(78)

* Held to manage equity exposures of the variable annuity guarantees and fixed index annuity options as discussed in the Group Chief Financial Officer and Chief Operating Officer's report.

(b) Other than equity-related derivatives

The fluctuations for this item comprise the net effect of:

- Fair value movements on free-standing, other than equity-related derivatives;
- Fair value movements on the Guaranteed Minimum Income Benefit (GMIB) reinsurance asset that are not matched by movements in the underlying GMIB liability, which is not fair valued; and
- Related amortisation of DAC.

The free-standing, other than equity-related derivatives, are held to manage interest rate exposures and durations within the general account and the variable annuity guarantees and fixed index annuity embedded options described in note (a) above. Accounting mismatches arise because of differences between the measurement basis and presentation of the derivatives, which are fair valued with movements recorded in the income statement, and the exposures they are intended to manage.

(c) Short-term fluctuations related to debt securities

	2019 \$m	2018 \$m
(Charges) credits in the year:		
Losses on sales of impaired and deteriorating bonds	(28)	(6)
Bond write-downs	(15)	(5)
Recoveries/reversals	1	25
Total (charges) credits in the year	(42)	14
Risk margin allowance deducted from adjusted IFRS operating profit based on longer-term investment returns*	109	104
	67	118
Interest-related realised gains (losses):		
Gains (losses) arising in the year	220	(12)
Less: Amortisation of gains and losses arising in current and prior years to adjusted IFRS operating profit based on longer-term investment returns	(129)	(155)
	91	(167)
Related amortisation of deferred acquisition costs	(2)	7
Total short-term fluctuations related to debt securities net of related DAC amortisation	156	(42)

* The debt securities of Jackson are held in the general account of the business. Realised gains and losses are recorded in the income statement with normalised returns included in adjusted IFRS operating profit based on longer-term investment returns with variations from year to year included in the short-term fluctuations category. The risk margin reserve charge for longer-term credit-related losses included in adjusted IFRS operating profit based on longer-term investment returns of Jackson for 2019 is based on an average annual risk margin reserve of 17 basis points (2018: 18 basis points) on average book values of \$62.6 billion (2018: \$57.1 billion) as shown below:

Moody's rating category (or equivalent under NAIC ratings of mortgage-backed securities)

	2019			2018		
	Average book value	RMR	Annual expected loss	Average book value	RMR	Annual expected loss
	\$m	%	\$m	\$m	%	\$m
A3 or higher	38,811	0.10	(38)	29,982	0.10	(31)
Baa1, 2 or 3	22,365	0.24	(53)	25,814	0.21	(55)
Ba1, 2 or 3	1,094	0.85	(9)	1,042	0.98	(10)
B1, 2 or 3	223	2.56	(6)	289	2.64	(8)
Below B3	75	3.39	(3)	11	3.69	–
Total	62,568	0.17	(109)	57,138	0.18	(104)
Related amortisation of deferred acquisition costs			19			22
Risk margin reserve charge to adjusted IFRS operating profit based on longer-term investment returns for longer-term credit-related losses			(90)			(82)

In addition to the accounting for realised gains and losses described above for Jackson general account debt securities, included within the statement of other comprehensive income is a pre-tax gain of \$3,392 million for net unrealised gains on debt securities classified as available-for-sale net of related amortisation of deferred acquisition costs (2018: charge of \$(1,831) million). Temporary market value movements do not reflect defaults or impairments. Additional details of the movement in the value of the Jackson portfolio are included in note C3.2(b).

B1.3 Determining operating segments and performance measure of operating segments

Operating segments

The Group's operating segments for financial reporting purposes are defined and presented in accordance with IFRS 8 'Operating Segments' on the basis of the management reporting structure and its financial management information.

Under the Group's management and reporting structure, its chief operating decision maker is the Group Executive Committee (GEC). In the management structure, responsibility is delegated to the Chief Executive Officers of Prudential Corporation Asia, the North American Business Unit and, up to the date of demerger, M&G plc for the day-to-day management of their business units (within the framework set out in the Group Governance Manual). Financial management information used by the GEC aligns with these business segments. These operating segments derive revenue from both insurance and asset management activities.

On 21 October 2019, the Group completed the demerger of M&G plc from the Prudential plc group, resulting in two separately listed companies. Accordingly, UK and Europe operations do not represent an operating segment at the year end. The results of M&G plc have been reclassified as discontinued operations in these consolidated financial statements in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' and have therefore been excluded in the analysis of performance measure of operating segments.

Operations which do not form part of any business unit are reported as 'Unallocated to a segment'. These include head office costs in London and Hong Kong. The Group's Africa operations and treasury function do not form part of any operating segment under the structure, and their assets and liabilities and profit or loss before tax are not material to the overall financial position of the Group. The Group's treasury function and Africa operations are therefore also reported as 'Unallocated to a segment'.

Performance measure

The performance measure of operating segments utilised by the Company is adjusted IFRS operating profit attributable to shareholders based on longer-term investment returns, as described below. This measurement basis distinguishes adjusted IFRS operating profit based on longer-term investment returns from other constituents of total profit for the year as follows:

- Short-term fluctuations in investment returns on shareholder-backed business. This includes the impact of short-term

- market effects on the carrying value of Jackson's guarantee liabilities and related derivatives as explained below;
- Amortisation of acquisition accounting adjustments arising on the purchase of business. This comprises principally the charge for the adjustments arising on the purchase of REALIC in 2012; and
- Gain or loss on corporate transactions, such as disposals undertaken in the year and costs connected to the demerger of M&G plc from Prudential plc.

Determination of adjusted IFRS operating profit based on longer-term investment returns for investment and liability movements

(a) With-profits business

For Asia's with-profits business in Hong Kong, Singapore and Malaysia, the adjusted IFRS operating profit based on longer-term investment returns reflects the shareholders' share in the bonuses declared to policyholders. Value movements in the underlying assets of the with-profits funds only affect the shareholder results through indirect effects of investment performance on declared policyholder bonuses and therefore, do not affect directly the determination of adjusted IFRS operating profit based on longer-term investment returns.

(b) Unit-linked business including the US variable annuity separate accounts

The policyholder unit liabilities are directly reflective of the underlying asset value movements. Accordingly, the adjusted IFRS operating profit based on longer-term investment returns reflect the current period value movements in both the unit liabilities and the backing assets.

(c) US variable annuity and fixed index annuity business

This business has guarantee liabilities which are measured on a combination of fair value and other US GAAP derived principles. These liabilities are subject to an extensive derivative programme to manage equity and interest rate exposures whose fair value movements pass through the income statement each period.

The following value movements for Jackson's variable and fixed index annuity business are excluded from adjusted IFRS operating profit based on longer-term investment returns. See note B1.2 note (ii):

- Fair value movements for equity-based derivatives;
- Fair value movements for guaranteed benefit options for the 'not for life' portion of Guaranteed Minimum Withdrawal Benefit (GMWB) and fixed index annuity business, and Guaranteed Minimum Income Benefit (GMIB) reinsurance (see below);
- Movements in the accounts carrying value of Guaranteed Minimum Death Benefit (GMDB), GMIB and the 'for life' portion of GMWB liabilities, (see below) for which, under the 'grandfathered' US GAAP applied under IFRS for Jackson's insurance assets and liabilities, the measurement basis gives rise to a muted impact of current period market movements (ie they are relatively insensitive to the effect of current period equity market and interest rate changes);
- A portion of the fee assessments as well as claim payments, in respect of guarantee liabilities; and
- Related amortisation of deferred acquisition costs for each of the above items.

Guaranteed benefit options for the 'not for life' portion of GMWB and equity index options for the fixed index annuity business

The 'not for life' portion of GMWB guaranteed benefit option liabilities is measured under the US GAAP basis applied for IFRS in a manner consistent with IAS 39 under which the projected future growth rate of the account balance is based on the greater of US Treasury rates and current swap rates (rather than expected rates of return) with only a portion of the expected future guarantee fees included. Reserve value movements on these liabilities are sensitive to changes to levels of equity markets, implied volatility and interest rates. The equity index option for fixed index annuity business is measured under the US GAAP basis applied for IFRS in a manner consistent with IAS 39 under which the projected future growth is based on current swap rates.

Guaranteed benefit option for variable annuity guarantee minimum income benefit

The GMIB liability, which is substantially reinsured, subject to a deductible and annual claim limits, is accounted for using 'grandfathered' US GAAP. This accounting basis substantially does not recognise the effects of market movements. The corresponding reinsurance asset is measured under the 'grandfathered' US GAAP basis applied for IFRS in a manner consistent with IAS 39 'Financial Instruments: Recognition and Measurement', and the asset is therefore recognised at fair value. As the GMIB is economically reinsured, the mark to market element of the reinsurance asset is included as a component of short-term fluctuations in investment returns.

(d) Policyholder liabilities that are sensitive to market conditions

Under IFRS, the degree to which the carrying values of liabilities to policyholders are sensitive to current market conditions varies between business units depending upon the nature of the 'grandfathered' measurement basis.

Movements in liabilities for some types of business do require bifurcation between the elements that relate to longer-term market condition and short-term effects to ensure that at the net level (ie after allocated investment return and charge for policyholder benefits) the adjusted IFRS operating profit based on longer-term investment returns reflects longer-term market returns.

For certain Asia non-participating business, for example in Hong Kong, the economic features are more akin to asset management products with policyholder liabilities reflecting asset shares over the contract term. Consequently, for these products, the charge for policyholder benefits in the adjusted IFRS operating profit based on longer-term investment returns reflects the asset share feature rather than volatile movements that would otherwise be reflected if the local regulatory basis (as applied for the IFRS balance sheet) was used.

For other types of Asia non-participating business, expected longer-term investment returns and interest rates are used to determine the movement in policyholder liabilities for determining adjusted IFRS operating profit based on longer-term investment returns. This ensures assets and liabilities are reflected on a consistent basis.

(e) Assets backing other shareholder-financed long-term insurance business

Except in the case of assets backing liabilities which are directly matched (such as unit-linked business) adjusted IFRS operating profit based on longer-term investment returns for assets backing shareholder-financed business is determined on the basis of expected longer-term investment returns. Longer-term investment returns comprise actual income receivable for the period (interest/dividend income) and for both debt and equity-type securities longer-term capital returns.

Debt securities and loans

In principle, for debt securities and loans, the longer-term capital returns comprise two elements:

- Risk margin reserve based charge for the expected level of defaults for the period, which is determined by reference to the credit quality of the portfolio. The difference between impairment losses in the reporting period and the risk margin reserve charge to the adjusted IFRS operating profit based on longer-term investment returns is reflected in short-term fluctuations in investment returns; and
- The amortisation of interest-related realised gains and losses to adjusted IFRS operating profit based on longer-term investment returns to the date when sold bonds would have otherwise matured.

At 31 December 2019, the level of unamortised interest-related realised gains and losses related to previously sold bonds for the Group was a net gain of \$916 million (2018: \$776 million).

For Asia insurance operations, realised gains and losses are principally interest related. Accordingly, all realised gains and losses to date for these operations are amortised over the period to the date those securities would otherwise have matured, with no explicit risk margin reserve charge.

For US insurance operations, Jackson has used the ratings by Nationally Recognised Statistical Ratings Organisations (NRSRO) or ratings resulting from the regulatory ratings detail issued by the National Association of Insurance Commissioners (NAIC) to determine the average annual risk margin reserve to apply to debt securities held to back general account business. Debt securities held to back separate account and reinsurance funds withheld are not subject to risk margin reserve charge. Further details of the risk margin reserve charge, as well as the amortisation of interest-related realised gains and losses, for Jackson are shown in note B1.2 note (ii)(c).

Equity-type securities

For equity-type securities, the longer-term rates of return are estimates of the long-term trend investment returns for income and capital having regard to past performance, current trends and future expectations. Different rates apply to different categories of equity-type securities.

For Asia insurance operations, investments in equity securities held for non-linked shareholder-backed business amounted to \$3,473 million as at 31 December 2019 (31 December 2018: \$2,733 million). The rates of return applied in 2019 ranged from 5.0 per cent to 17.6 per cent (2018: 5.3 per cent to 17.6 per cent) with the rates applied varying by business unit. These rates are broadly stable from year to year but may be different between regions, reflecting, for example, differing expectations of inflation in each local business unit. The assumptions are for the returns expected to apply in equilibrium conditions. The assumed rates of return do not reflect any cyclical variability in economic performance and are not set by reference to prevailing asset valuations.

The longer-term investment returns for the Asia insurance joint ventures and associate accounted for using the equity method are determined on a similar basis as the other Asia insurance operations described above.

For US insurance operations, as at 31 December 2019, the equity-type securities for non-separate account operations amounted to \$1,481 million (31 December 2018: \$1,731 million). For these operations, the longer-term rates of return for income and capital applied in the years indicated, which reflect the combination of the average risk-free rates over the year and appropriate risk premiums are as follows:

	2019	2018
Equity-type securities such as common and preferred stock and portfolio holdings in mutual funds	5.5% to 6.7%	6.7% to 7.2%
Other equity-type securities such as investments in limited partnerships and private equity funds	7.5% to 8.7%	8.7% to 9.2%

Derivative value movements

Generally, derivative value movements are excluded from adjusted IFRS operating profit based on longer-term investment returns. The exception is where the derivative value movements broadly offset changes in the accounting value of other assets and liabilities included in adjusted IFRS operating profit based on longer-term investment returns. The principal example of derivatives whose value movements are excluded from adjusted IFRS operating profit based on longer-term investment returns arises in Jackson.

Equity-based derivatives held by Jackson are as discussed above in section (c) above. Non-equity based derivatives held by Jackson are part of a broad-based hedging programme for features of Jackson's bond portfolio (for which value movements are booked in the statement of other comprehensive income rather than the income statement), product liabilities (for which US GAAP accounting as 'grandfathered' under IFRS 4 does not fully reflect the economic features being hedged), and the interest rate exposure attaching to equity-based product options.

(f) Fund management and other non-insurance businesses

For these businesses, the determination of adjusted IFRS operating profit based on longer-term investment returns reflects the underlying economic substance of the arrangements. Generally, realised gains and losses are included in adjusted IFRS operating profit based on longer-term investment returns with temporary unrealised gains and losses being included in short-term fluctuations. In some instances, realised gains and losses on derivatives and other financial instruments are amortised to adjusted IFRS operating profit based on longer-term investment returns over a time period that reflects the underlying economic substance of the arrangements.

B2 Acquisition costs and other expenditure

	2019 \$m	2018 \$m
Acquisition costs incurred for insurance policies	(4,177)	(4,313)
Acquisition costs deferred less amortisation of acquisition costs ^{note (i)}	2,116	59
Administration costs and other expenditure*	(5,019)	(3,877)
Movements in amounts attributable to external unit holders of consolidated investment funds	(203)	(396)
Total acquisition costs and other expenditure from continuing operations	(7,283)	(8,527)

* The 2018 administration costs and other expenditure included a credit of \$0.5 billion for the negative ceding commissions arising from the group payout annuity business reinsurance agreement entered into by Jackson with John Hancock in 2018.

Note

(i) The credit for acquisition costs deferred less amortisation of those costs of \$2,116 million (2018: \$59 million) arises in Asia operations of \$358 million (2018: \$362 million) and in US operations of \$1,758 million (2018: a charge of \$(303) million) as set out in note C5.2. The credit of \$1,758 million for US operations (2018: a charge of \$(303) million) comprises additional costs deferred in the year of \$807 million (2018: \$759 million) driven by higher new business sales and a credit of \$951 million (2018: a charge of \$(1,062) million) for DAC amortisation, driven by the hedging losses arising in 2019.

B3 Effect of changes and other accounting matters on insurance assets and liabilities

The following matters are relevant to the determination of the 2019 results:

(a) Asia insurance operations

In 2019, the adjusted IFRS operating profit based on longer-term investment returns for Asia insurance operations includes a net credit of \$142 million (2018: credit of \$126 million) representing a small number of items that are not expected to reoccur, including the impact of a refinement to the run-off of the allowance for prudence within technical provisions.

(b) US insurance operations

Changes in the policyholder liabilities held for variable and fixed index annuity guarantees are reported as part of non-operating profit and are as described in note B1.2.

B4 Tax charge from continuing operations

B4.1 Total tax charge by nature of expense

The total tax charge for continuing operations in the income statement is as follows:

Tax charge	2019 \$m			2018 \$m
	Current tax	Deferred tax	Total	Total
Attributable to shareholders:				
Asia operations	(306)	(162)	(468)	(369)
US operations	(307)	652	345	(340)
Other operations	182	(28)	154	140
Tax (charge) credit attributable to shareholders' returns	(431)	462	31	(569)
Attributable to policyholders:				
Asia operations	(130)	(235)	(365)	(107)
Total tax (charge) credit	(561)	227	(334)	(676)

The principal reason for the decrease in the tax charge attributable to shareholders' returns from continuing operations is the increase in the tax credit on US derivative losses which largely offset the tax charge on Asia profits in 2019.

The reconciliation of the expected to actual tax charge attributable to shareholders is provided in B4.2 below. The tax charge attributable to policyholders of \$365 million above is equal to the profit before tax attributable to policyholders of \$365 million. This is the result of accounting for policyholder income after the deduction of expenses and movement on unallocated surpluses on an after-tax basis.

In 2019, a tax charge of \$709 million (2018: charge of \$387 million from continuing operations), principally relating to an increase in the market value on securities of US insurance operations classified as available-for-sale, has been taken through other comprehensive income.

B4.2 Reconciliation of shareholder effective tax rate for continuing operations

In the reconciliation below, the expected tax rates reflect the corporation tax rates that are expected to apply to the taxable profit or loss of the relevant business. Where there are profits or losses of more than one jurisdiction, the expected tax rates reflect the corporation tax rates weighted by reference to the amount of profit or loss contributing to the aggregate business result.

	2019				Percentage impact on ETR %	2018	
	Asia operations \$m	US operations \$m	Other* operations \$m	Total attributable to shareholders \$m		Total attributable to shareholders \$m	Percentage impact on ETR %
Adjusted IFRS operating profit (loss) based on longer-term investment returns	3,276	3,070	(1,036)	5,310		4,409	
Non-operating profit (loss)	917	(3,795)	(510)	(3,388)		(959)	
Profit (loss) before tax	4,193	(725)	(1,546)	1,922		3,450	
Expected tax rate:	20%	21%	19%	20%		22%	
Tax at the expected rate	839	(152)	(294)	393	20.4%	759	22.0%
Effects of recurring tax reconciliation items:							
Income not taxable or taxable at concessionary rates	(94)	(29)	(3)	(126)	(6.6)%	(71)	(2.1)%
Deductions not allowable for tax purposes	40	10	5	55	2.9%	69	2.0%
Items related to taxation of life insurance businesses ^{note (i)}	(192)	(125)	–	(317)	(16.5)%	(128)	(3.7)%
Deferred tax adjustments	(28)	(1)	(4)	(33)	(1.7)%	(55)	(1.6)%
Unrecognised tax losses ^{note (ii)}	–	–	46	46	2.4%	–	–
Effect of results of joint ventures and associates ^{note (iii)}	(100)	–	–	(100)	(5.2)%	(83)	(2.4)%
Irrecoverable withholding taxes ^{note (iv)}	–	–	59	59	3.1%	63	1.8%
Other	5	5	3	13	0.7%	9	0.3%
Total	(369)	(140)	106	(403)	(20.9)%	(196)	(5.7)%
Effects of non-recurring tax reconciliation items:							
Adjustments to tax charge in relation to prior years	4	(53)	(18)	(67)	(3.5)%	(4)	(0.1)%
Movements in provisions for open tax matters ^{note (v)}	17	–	(18)	(1)	(0.0)%	10	0.3%
Demerger related activities ^{note (vi)}	–	–	76	76	4.1%	–	–
Adjustments in relation to business disposals	(23)	–	(6)	(29)	(1.4)%	–	–
Total	(2)	(53)	34	(21)	(1.1)%	6	0.2%
Total actual tax charge (credit)	468	(345)	(154)	(31)	(1.6)%	569	16.5%
Analysed into:							
Tax on adjusted IFRS operating profit (loss) based on longer-term investment returns	436	437	(100)	773		666	
Tax on non-operating profit (loss)	32	(782)	(54)	(804)		(97)	
Actual tax rate on:							
Adjusted IFRS operating profit (loss) based on longer-term investment returns:							
Including non-recurring tax reconciling items	13%	14%	10%	15%		15%	
Excluding non-recurring tax reconciling items	13%	16%	10%	15%		15% ^{note (vii)}	
Total profit (loss)	11%	48%	10%	(2)%		16% ^{note (vii)}	

* Other operations include restructuring costs.

Notes

- (i) The \$125 million (2018: \$111 million) reconciling item in US operations reflects the impact of the dividend received deduction on the taxation of profits from variable annuity business. The principal reason for the increase in the Asia operations reconciling items from \$17 million in 2018 to \$192 million in 2019 reflects an increase in investment gains in Hong Kong which are not taxable due to the taxable profit being computed as 5 per cent of net insurance premiums.
- (ii) The \$46 million adverse reconciling item in unrecognised tax losses reflects losses arising after the demerger of the Group's UK and Europe operations where it is unlikely that relief for the losses will be available in future periods.
- (iii) Profit before tax includes Prudential's share of profit after tax from the joint ventures and associates. Therefore, the actual tax charge does not include tax arising from profit or loss of joint ventures and associates and is reflected as a reconciling item.
- (iv) The \$59 million (2018: \$63 million) adverse reconciling items reflects local withholding taxes on dividends paid by certain non-UK subsidiaries, principally Indonesia, to the UK. The dividends are exempt from UK tax and consequently the withholding tax cannot be offset against UK tax payments.
- (v) The complexity of the tax laws and regulations that relate to our businesses means that from time to time we may disagree with tax authorities on the technical interpretation of a particular area of tax law. This uncertainty means that in the normal course of business the Group will have matters where, upon ultimate resolution of the uncertainty, the amount of profit subject to tax may be greater than the amounts reflected in the Group's submitted tax returns. The statement of financial position contains the following provisions in relation to open tax matters.

	\$m
Balance at beginning of year	190
Movements in the current year included in:	
Tax charge attributable to shareholders	(1)
Other movements*	9
Balance at end of year	198

* Other movements include interest arising on open tax matters and amounts included in the Group's share of profits from joint ventures and associates, net of related tax.

- (vi) The \$76 million adverse reconciling items in Demerger related activities relates to non-tax deductible costs incurred in preparation for, or as a result of, the demerger of the Group's UK and Europe operations.
- (vii) 2018 actual tax rate of the relevant business operations are shown below:

	2018			
	Asia operations	US operations	Other operations	Total attributable to shareholders
Adjusted IFRS operating profit based on longer-term investment returns	14%	16%	14%	15%
Profit before tax	17%	15%	13%	16%

B5 Earnings per share

Accounting principles

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders (after related tax and non-controlling interests) by the weighted average number of ordinary shares outstanding during the year, excluding those held in employee share trusts and consolidated investment funds, which are treated as cancelled.

For diluted earnings per share, the weighted average number of shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group's only class of potentially dilutive ordinary shares are those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year. No adjustment is made if the impact is anti-dilutive overall.

	Note	2019					
		Before tax \$m B1.1	Tax \$m B4	Non-controlling interests \$m	Net of tax and non-controlling interests \$m	Basic earnings per share cents	Diluted earnings per share cents
Based on adjusted IFRS operating profit based on longer-term investment returns		5,310	(773)	(9)	4,528	175.0¢	175.0¢
Short-term fluctuations in investment returns on shareholder-backed business		(3,203)	772	-	(2,431)	(94.0)¢	(94.0)¢
Amortisation of acquisition accounting adjustments		(43)	8	-	(35)	(1.3)¢	(1.3)¢
Loss on disposal of businesses and corporate transactions		(142)	24	-	(118)	(4.6)¢	(4.6)¢
Based on profit for the year from continuing operations		1,922	31	(9)	1,944	75.1¢	75.1¢
Based on (loss) for the year from discontinued operations	D2				(1,161)	(44.8)¢	(44.8)¢
Based on profit for the year					783	30.3¢	30.3¢

2018

	Before tax \$m	Tax \$m	Non- controlling interests \$m	Net of tax and non- controlling interests \$m	Basic earnings per share cents	Diluted earnings per share cents
Note	B1.1	B4				
Based on adjusted IFRS operating profit based on longer-term investment returns	4,409	(666)	(4)	3,739	145.2¢	145.1¢
Short-term fluctuations in investment returns on shareholder-backed business	(791)	70	–	(721)	(28.0)¢	(28.0)¢
Amortisation of acquisition accounting adjustments	(61)	11	–	(50)	(1.9)¢	(1.9)¢
Loss on disposal of businesses and corporate transactions	(107)	16	–	(91)	(3.6)¢	(3.5)¢
Based on profit for the year from continuing operations	3,450	(569)	(4)	2,877	111.7¢	111.7¢
Based on profit for the year from discontinued operations				1,142	44.3¢	44.3¢
Based on profit for the year				4,019	156.0¢	156.0¢

Number of shares (in millions)

Weighted average number of shares* for calculation of:	2019	2018
Basic earnings per share	2,587	2,575
Shares under option at end of year	4	5
Shares that would have been issued at fair value on assumed option price	(4)	(4)
Diluted earnings per share	2,587	2,576

* Excluding those held in employee share trusts and consolidated investment funds.

B6 Dividends

B6.1 Demerger dividend in specie of M&G plc

On 21 October 2019, following approval by the Group's shareholders, Prudential plc demerged M&G plc its UK and Europe operations via a dividend in specie. As required by IFRIC 17 'Distributions of Non-cash Assets to Owners', the dividend has been recorded at the fair value of M&G plc being \$7,379 million.

B6.2 Other dividends

	2019		2018	
	Cents per share	\$m	Cents per share	\$m
Dividends relating to reporting year:				
First interim ordinary dividend	20.29¢	528	20.55¢	530
Second interim ordinary dividend	25.97¢	675	42.89¢	1,108
Total	46.26¢	1,203	63.44¢	1,638
Dividends paid in reporting year:				
Current year first interim ordinary dividend	20.29¢	526	20.55¢	530
Second interim ordinary dividend for prior year	42.89¢	1,108	43.79¢	1,132
Total	63.18¢	1,634	64.34¢	1,662

Dividend per share

The 2019 first interim ordinary dividend of 20.29 cents per ordinary share was paid to eligible shareholders on 26 September 2019.

The second interim ordinary dividend for the year ended 31 December 2019 of 25.97 cents per ordinary share will be paid on 15 May 2020 to shareholders on the UK register on 27 March 2020 (Record Date), and to shareholders on the Hong Kong register at 4.30pm Hong Kong time on the Record Date (HK Shareholders). Holders of US American Depositary Receipts (US Shareholders) will be paid their dividends on 15 May 2020. The second interim ordinary dividend will be paid on or about 22 May 2020 to shareholders with shares standing to the credit of their securities accounts with The Central Depository (Pte) Limited (CDP) at 5.00pm Singapore time on the Record Date (SG Shareholders).

The Group's 2020 dividend under the new progressive dividend policy will be determined from a 2019 US dollar base of \$958 million (36.84 cents per share), equivalent to the circa £750 million previously disclosed in the Circular. This represents the first interim ordinary dividend relating to 2019 of \$528 million plus the second interim ordinary dividend of \$675 million less the contribution of remittances from the discontinued M&G plc business to the second interim ordinary dividend of \$245 million.

Prudential plc now determines and declares its dividends in US dollars, commencing with dividends paid in 2020, including the 2019 second interim dividend. Shareholders holding shares on the UK or Hong Kong share registers will continue to receive their dividend payments in either pounds sterling or Hong Kong dollars respectively, unless they elect otherwise. Shareholders holding shares on the UK or Hong Kong registers may elect to receive dividend payments in US dollars. Elections must be made through the relevant UK or Hong Kong share registrar on or before 23 April 2020. The corresponding amount per share in pounds sterling and Hong Kong dollars is expected to be announced on or about 30 April 2020. The US dollar to pound sterling and Hong Kong dollar conversion rates will be determined by the actual rates achieved by Prudential buying those currencies

during the two working days preceding the subsequent announcement. Holders of American Depositary Receipts (ADRs) will continue to receive their dividend payments in US dollars. Shareholders holding an interest in Prudential shares through the Central Depository (Pte) Limited (CDP) in Singapore will continue to receive their dividend payments in Singapore dollars at an exchange rate determined by CDP.

Shareholders on the UK register are eligible to participate in a Dividend Reinvestment Plan.

C FINANCIAL POSITION NOTES

C1 Analysis of Group statement of financial position by segment

To explain the assets, liabilities and capital of the Group's businesses more comprehensively, it is appropriate to provide analyses of the Group's statement of financial position by operating segment and type of business.

	Note	31 Dec 2019 \$m				31 Dec 2018 \$m	
		Asia C2.1	US C2.2	Unallocated to a segment (central operations) note (i)	Elimination of intra- group debtors and creditors	Group total	Group total
By operating segment							
Assets							
Goodwill	C5.1	926	–	43	–	969	2,365
Deferred acquisition costs and other intangible assets	C5.2	5,154	12,264	58	–	17,476	15,185
Reinsurers' share of insurance contract liabilities		5,458	8,394	4	–	13,856	14,193
Other assets ^{note (ii)}		3,208	5,432	3,339	(2,652)	9,327	14,595
Investment properties		7	7	11	–	25	22,829
Investment in joint ventures and associates accounted for using the equity method		1,500	–	–	–	1,500	2,207
Financial investments		131,499	271,190	1,407	–	404,096	547,522
Assets held for sale		–	–	–	–	–	13,472
Cash and cash equivalents		2,490	1,960	2,515	–	6,965	15,442
Total assets		150,242	299,247	7,377	(2,652)	454,214	647,810
Equity							
Shareholders' equity		10,866	8,929	(318)	–	19,477	21,968
Non-controlling interests		155	–	37	–	192	23
Total equity		11,021	8,929	(281)	–	19,669	21,991
Liabilities							
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	C4.1	115,943	269,549	186	–	385,678	521,286
Unallocated surplus of with-profits funds	C4.1	4,750	–	–	–	4,750	20,180
Core structural borrowings of shareholder-financed businesses	C6.1	–	250	5,344	–	5,594	9,761
Operational borrowings	C6.2	473	1,501	671	–	2,645	6,289
Other liabilities		18,055	19,018	1,457	(2,652)	35,878	54,844
Liabilities held for sale		–	–	–	–	–	13,459
Total liabilities		139,221	290,318	7,658	(2,652)	434,545	625,819
Total equity and liabilities		150,242	299,247	7,377	(2,652)	454,214	647,810

Notes

- (i) Unallocated to a segment includes central operations, the Group's treasury function and Africa operations as per note B1.3.
- (ii) 'Other assets' at 31 December 2019 included property, plant and equipment of \$1,065 million relating to continuing operations (31 December 2018: \$1,795 million, of which \$482 million related to continuing operations). On 1 January 2019, \$527 million of right-of-use assets was recognised for continuing operations upon adoption of IFRS 16 (see note A3). Movements in the right-of-use assets in 2019 is provided in note C13.

C2 Analysis of segment statement of financial position by business type

To show the statement of financial position by reference to the differing degrees of policyholder and shareholder economic interest of the different types of business, the analysis below is structured to show the assets and liabilities of each segment by business type.

C2.1 Asia

	31 Dec 2019 \$m							31 Dec 2018 \$m	
	Total insurance				Total	Asset-management	Eliminations	Total	Total
Note	With -profits business*	Unit -linked assets and liabilities	Other business						
Assets									
Goodwill	-	-	327	327	599	-	926	634	
Deferred acquisition costs and other intangible assets	67	-	5,072	5,139	15	-	5,154	3,741	
Reinsurers' share of insurance contract liabilities	152	-	5,306	5,458	-	-	5,458	3,537	
Other assets	1,210	237	1,584	3,031	212	(35)	3,208	4,987	
Investment properties	-	-	7	7	-	-	7	6	
Investment in joint ventures and associates accounted for using the equity method	-	-	1,263	1,263	237	-	1,500	1,262	
Financial investments	76,581	24,628	29,982	131,191	308	-	131,499	103,016	
Cash and cash equivalents	963	356	1,015	2,334	156	-	2,490	2,789	
Total assets	78,973	25,221	44,556	148,750	1,527	(35)	150,242	119,972	
Total equity	-	-	9,803	9,803	1,218	-	11,021	8,187	
Liabilities									
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	C4.2	65,558	23,571	26,814	115,943	-	115,943	93,248	
Unallocated surplus of with-profits funds	C4.2	4,750	-	-	4,750	-	4,750	3,198	
Operational borrowings		302	21	123	446	27	473	102	
Other liabilities		8,363	1,629	7,816	17,808	282	(35)	18,055	
Total liabilities		78,973	25,221	34,753	138,947	309	(35)	139,221	111,785
Total equity and liabilities		78,973	25,221	44,556	148,750	1,527	(35)	150,242	119,972

* The statement of financial position for with-profits business comprises the with-profits assets and liabilities of the Hong Kong, Malaysia and Singapore operations.
 *Other business' includes assets and liabilities of other participating businesses and other non-linked shareholder-backed business.

C2.2 US

	31 Dec 2019 \$m							31 Dec 2018 \$m	
	Total insurance				Total	Asset-management	Eliminations	Total	Total
Note	Variable annuity separate account assets and liabilities	Fixed annuity, GICs and other business							
Assets									
Goodwill	-	-	-	-	-	-	-	-	
Deferred acquisition costs and other intangible assets	-	12,264	12,264	-	-	-	12,264	11,140	
Reinsurers' share of insurance contract liabilities	-	8,394	8,394	-	-	-	8,394	8,485	
Other assets	-	5,293	5,293	228	(89)	5,432	4,569		
Investment properties	-	7	7	7	-	-	7	8	
Financial investments	195,070	76,106	271,176	14	-	271,190	232,955		
Cash and cash equivalents	-	1,912	1,912	48	-	1,960	3,827		
Total assets		195,070	103,976	299,046	290	(89)	299,247	260,984	
Total equity		-	8,923	8,923	6	-	8,929	7,163	
Liabilities									
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	C4.3	195,070	74,479	269,549	-	-	269,549	236,380	
Core structural borrowings of shareholder-financed businesses	C6.1	-	250	250	-	-	250	250	
Operational borrowings		-	1,460	1,460	41	-	1,501	418	
Other liabilities		-	18,864	18,864	243	(89)	19,018	16,773	
Total liabilities		195,070	95,053	290,123	284	(89)	290,318	253,821	
Total equity and liabilities		195,070	103,976	299,046	290	(89)	299,247	260,984	

C3 Assets and liabilities

C3.1 Group assets and liabilities – measurement

(a) Fair value measurement hierarchy of Group assets and liabilities

Assets and liabilities carried at fair value on the statement of financial position

The table below shows the assets and liabilities carried at fair value analysed by level of the IFRS 13 'Fair Value Measurement' defined fair value hierarchy. This hierarchy is based on the inputs to the fair value measurement and reflects the lowest level input that is significant to that measurement.

All assets and liabilities held at fair value are classified as fair value through profit or loss, except for \$58,302 million (31 December 2018: \$52,025 million) of debt securities classified as available-for-sale, principally in the US operations. All assets and liabilities held at fair value are measured on a recurring basis. As of 31 December 2019, the Group did not have any financial instruments that are measured at fair value on a non-recurring basis.

Financial instruments at fair value

	31 Dec 2019 \$m			Total
	Level 1 Quoted prices (unadjusted) in active markets	Level 2 Valuation based on significant observable market inputs	Level 3 Valuation based on significant unobservable market inputs	
Analysis of financial investments, net of derivative liabilities by business type from continuing operations				
With-profits				
Equity securities and holdings in collective investment schemes	25,850	3,268	254	29,372
Debt securities	40,291	4,485	6	44,782
Other investments (including derivative assets)	57	103	–	160
Derivative liabilities	(137)	(94)	–	(231)
Total financial investments, net of derivative liabilities	66,061	7,762	260	74,083
Percentage of total (%)	90%	10%	0%	100%
Unit-linked and variable annuity separate account				
Equity securities and holdings in collective investment schemes	213,797	365	–	214,162
Debt securities	4,036	1,117	–	5,153
Other investments (including derivative assets)	6	4	–	10
Derivative liabilities	(1)	–	–	(1)
Total financial investments, net of derivative liabilities	217,838	1,486	–	219,324
Percentage of total (%)	99%	1%	0%	100%
Non-linked shareholder-backed				
Loans	–	–	3,587	3,587
Equity securities and holdings in collective investment schemes	3,638	87	22	3,747
Debt securities	23,600	61,035	–	84,635
Other investments (including derivative assets)	7	1,569	1,301	2,877
Derivative liabilities	(47)	(113)	–	(160)
Total financial investments, net of derivative liabilities	27,198	62,578	4,910	94,686
Percentage of total (%)	29%	66%	5%	100%
Group total analysis, including other financial liabilities held at fair value from continuing operations				
Loans	–	–	3,587	3,587
Equity securities and holdings in collective investment schemes	243,285	3,720	276	247,281
Debt securities	67,927	66,637	6	134,570
Other investments (including derivative assets)	70	1,676	1,301	3,047
Derivative liabilities	(185)	(207)	–	(392)
Total financial investments, net of derivative liabilities	311,097	71,826	5,170	388,093
Investment contract liabilities without discretionary participation features held at fair value	–	(1,011)	–	(1,011)
Net asset value attributable to unit holders of consolidated investment funds	(5,973)	(23)	(2)	(5,998)
Other financial liabilities held at fair value	–	–	(3,760)	(3,760)
Total financial instruments at fair value	305,124	70,792	1,408	377,324
Percentage of total (%)	81%	19%	0%	100%

31 Dec 2018 \$m

Analysis of financial investments, net of derivative liabilities by business type	Level 1	Level 2	Level 3	Total
	Quoted prices (unadjusted) in active markets	Valuation based on significant observable market inputs	Valuation based on significant unobservable market inputs	
With-profits				
Loans	–	–	2,168	2,168
Equity securities and holdings in collective investment schemes	66,636	6,937	621	74,194
Debt securities	39,750	62,382	1,033	103,165
Other investments (including derivative assets)	183	4,156	5,508	9,847
Derivative liabilities	(108)	(1,568)	–	(1,676)
Total financial investments, net of derivative liabilities	106,461	71,907	9,330	187,698
Percentage of total (%)	57%	38%	5%	100%
Unit-linked and variable annuity separate account				
Equity securities and holdings in collective investment schemes	194,845	643	11	195,499
Debt securities	6,070	12,388	–	18,458
Other investments (including derivative assets)	8	4	8	20
Derivative liabilities	(3)	(4)	–	(7)
Total financial investments, net of derivative liabilities	200,920	13,031	19	213,970
Percentage of total (%)	94%	6%	0%	100%
Non-linked shareholder-backed				
Loans	–	–	3,886	3,886
Equity securities and holdings in collective investment schemes	3,764	3	24	3,791
Debt securities	22,525	78,713	472	101,710
Other investments (including derivative assets)	77	1,602	1,198	2,877
Derivative liabilities	(2)	(2,241)	(539)	(2,782)
Total financial investments, net of derivative liabilities	26,364	78,077	5,041	109,482
Percentage of total (%)	24%	71%	5%	100%
Group total analysis, including other financial liabilities held at fair value				
Loans	–	–	6,054	6,054
Equity securities and holdings in collective investment schemes	265,245	7,583	656	273,484
Debt securities	68,345	153,483	1,505	223,333
Other investments (including derivative assets)	268	5,762	6,714	12,744
Derivative liabilities	(113)	(3,813)	(539)	(4,465)
Total financial investments, net of derivative liabilities	333,745	163,015	14,390	511,150
Investment contract liabilities without discretionary participation features held at fair value	–	(20,446)	–	(20,446)
Borrowings attributable to with-profits businesses	–	–	(2,045)	(2,045)
Net asset value attributable to unit holders of consolidated investment funds	(8,727)	(4,854)	(1,258)	(14,839)
Other financial liabilities held at fair value	–	(3)	(4,335)	(4,338)
Total financial instruments at fair value	325,018	137,712	6,752	469,482
Percentage of total (%)	70%	29%	1%	100%
Analysed as:				
Total from continuing operations				
With-profits	49,914	5,003	203	55,120
Unit-linked and variable annuity separate account	182,833	(82)	–	182,751
Non-linked shareholder-backed	21,077	55,972	339	77,388
	253,824	60,893	542	315,259
Percentage of total continuing operations (%)	81%	19%	0%	100%
Total from discontinued UK and Europe operations				
Percentage of total discontinued operations (%)	71,194	76,819	6,210	154,223
	46%	50%	4%	100%

(b) Valuation approach for level 2 fair valued assets and liabilities

A significant proportion of the Group's level 2 assets are corporate bonds, structured securities and other non-national government debt securities. These assets, in line with market practice, are generally valued using a designated independent pricing service or quote from third-party brokers. These valuations are subject to a number of monitoring controls, such as comparison to multiple pricing sources where available, monthly price variances, stale price reviews and variance analysis on prices achieved on subsequent trades.

When prices are not available from pricing services, quotes are sourced directly from brokers. Prudential seeks to obtain a number of quotes from different brokers so as to obtain the most comprehensive information available on their executability. Where quotes are sourced directly from brokers, the price used in the valuation is normally selected from one of the quotes based on a number of factors, including the timeliness and regularity of the quotes and the accuracy of the quotes considering the spreads provided. The selected quote is the one which best represents an executable quote for the security at the measurement date.

Generally, no adjustment is made to the prices obtained from independent third parties. Adjustment is made in only limited circumstances, where it is determined that the third-party valuations obtained do not reflect fair value (eg either because the value is stale and/or the values are extremely diverse in range). These are usually securities which are distressed or that could be subject to a debt restructure or where reliable market prices are no longer available due to an inactive market or market dislocation. In these instances, prices are derived using internal valuation techniques including those as described below in this note with the objective of arriving at a fair value measurement that reflects the price at which an orderly transaction would take

place between market participants on the measurement date. The techniques used require a number of assumptions relating to variables such as credit risk and interest rates. Examples of such variables include an average credit spread based on the corporate bond universe and the relevant duration of the asset being valued. Prudential determines the input assumptions based on the best available information at the measurement dates. Securities valued in such manner are classified as level 3 where these significant inputs are not based on observable market data.

Of the total level 2 debt securities of \$66,637 million at 31 December 2019 (31 December 2018: \$63,247 million from continuing operations), \$8,915 million are valued internally (31 December 2018: \$7,462 million from continuing operations). The majority of such securities are valued using matrix pricing, which is based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities of a comparable duration. Under matrix pricing, the debt securities are priced taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt instruments factoring in a specified liquidity premium. The majority of the parameters used in this valuation technique are readily observable in the market and, therefore, are not subject to interpretation.

(c) Fair value measurements for level 3 fair valued assets and liabilities

Valuation approach for level 3 fair valued assets and liabilities

Investments valued using valuation techniques include financial investments which by their nature do not have an externally quoted price based on regular trades, and financial investments for which markets are no longer active as a result of market conditions, eg market illiquidity. The valuation techniques used include comparison to recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option-adjusted spread models and, if applicable, enterprise valuation.

The Group's valuation policies, procedures and analyses for instruments categorised as level 3 are overseen by Business Unit committees as part of the Group's wider financial reporting governance processes. The procedures undertaken include approval of valuation methodologies, verification processes, and resolution of significant or complex valuation issues. In undertaking these activities, the Group makes use of the extensive expertise of its asset management functions. In addition, the Group has minimum standards for independent price verification to ensure valuation accuracy is regularly independently verified. Adherence to this policy is monitored across the business units.

At 31 December 2019, the Group held \$1,408 million of net financial instruments at fair value within level 3. This represents less than one per cent of the total fair valued financial assets net of financial liabilities.

Included within these net assets and liabilities are policy loans of \$3,587 million at 31 December 2019 measured as the loan outstanding balance, plus accrued investment income, attached to acquired REALIC business and held to back the liabilities for funds withheld under reinsurance arrangements. The funds withheld liability of \$3,760 million at 31 December 2019 is also classified within level 3. The fair value of the liabilities is equal to the fair value of the underlying assets held as collateral, which primarily consist of policy loans and debt securities. The assets and liabilities broadly offset and therefore their movements have minimal impact on shareholders' profit and equity.

Excluding the loans and funds withheld liability under REALIC's reinsurance arrangements as described above, which amounted to a net liability of \$173 million, the level 3 fair valued financial assets net of financial liabilities were a net asset of \$1,581 million, which are all externally valued and comprise the following:

- Other financial investments of \$1,301 million consisting primarily of private equity limited partnerships held by Jackson, which are externally valued in accordance with International Private Equity and Venture Capital Association guidelines using management information available for these investments;
- Equity securities and holdings in collective investment schemes of \$276 million consisting primarily of property and infrastructure funds held by the Asia participating funds, which are externally valued using the net asset value of the invested entities; and
- Other sundry individual financial instruments of a net asset of \$4 million.

Of the net asset of \$1,581 million referred to above:

- A net asset of \$258 million is held by the Group's Asia participating funds and therefore shareholders' profit and equity are not impacted by movements in the valuation of these financial instruments; and
- A net asset of \$1,323 million is held to support non-linked shareholder-backed business. All of these instruments are externally valued and are therefore inherently less subjective than internal valuations. These instruments consist primarily of private equity limited partnerships held by Jackson as described above. If the value of all these Level 3 financial instruments decreased by 10 per cent, the change in valuation would be \$132 million, which would reduce shareholders' equity by this amount before tax. All of this amount would pass through the income statement substantially as part of short-term fluctuations in investment returns outside of adjusted IFRS operating profit based on longer-term investment returns.

(d) Transfers into and transfers out of levels

The Group's policy is to recognise transfers into and transfers out of levels as of the end of each half year reporting period except for material transfers which are recognised as of the date of the event or change in circumstances that caused the transfer. Transfers are deemed to have occurred when there is a material change in the observed valuation inputs or a change in the level of trading activities of the securities.

During 2019, the transfers between levels within the Group's portfolio, excluding those held by the discontinued UK and Europe operations, were primarily transfers from level 1 to level 2 of \$678 million and transfers from level 2 to level 1 of \$1,121 million. These transfers which relate to equity securities and debt securities arose to reflect the change in the observed valuation inputs

and in certain cases, the change in the level of trading activities of the securities. There were no transfers, excluding those related to the discontinued UK and Europe operations, into and out of level 3 in the year.

C3.2 Debt securities

This note provides analysis of the Group's debt securities, including asset-backed securities and sovereign debt securities.

With the exception of certain debt securities classified as 'available-for-sale' under IAS 39 as disclosed in notes C3.2(b) below, which primarily relate to US insurance operations, the Group's debt securities are carried at fair value through profit or loss.

(a) Credit rating

Debt securities are analysed below according to external credit ratings issued, with equivalent ratings issued by different ratings agencies grouped together. Standard & Poor's ratings have been used where available, if this isn't the case Moody's and then Fitch have been used as alternatives. For the US, NAIC ratings have also been used where relevant (as shown in 'Other' in the tables below). In the table below, AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB- ratings. Financial assets which fall outside this range are classified as below BBB-.

	31 Dec 2019 \$m						Total
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other (including NAIC rated)	
Asia:							
With-profits	5,205	21,911	5,863	5,874	2,382	3,547	44,782
Unit-linked	770	135	674	2,074	522	978	5,153
Non-linked shareholder-backed	1,611	6,050	6,293	4,639	3,749	2,304	24,646
Asset management	14	-	112	-	-	3	129
US:							
Non-linked shareholder-backed	1,154	10,300	15,229	18,489	1,995	11,361	58,528
Other operations	-	1,211	-	-	55	66	1,332
Total debt securities	8,754	39,607	28,171	31,076	8,703	18,259	134,570

	31 Dec 2018 \$m						Total
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other (including NAIC rated)	
Asia:							
With-profits	3,659	15,766	5,275	4,788	2,225	2,934	34,647
Unit-linked	1,040	127	627	1,822	542	912	5,070
Non-linked shareholder-backed	1,317	4,524	4,734	3,738	2,805	1,455	18,573
Asset management	14	-	76	-	-	-	90
US:							
Non-linked shareholder-backed	864	9,403	13,100	18,667	1,820	9,120	52,974
Other operations	788	1,387	193	52	62	24	2,506
Total continuing operations	7,682	31,207	24,005	29,067	7,454	14,445	113,860
Total discontinued UK and Europe operations	13,931	23,185	23,746	25,126	4,387	19,098	109,473
Total debt securities	21,613	54,392	47,751	54,193	11,841	33,543	223,333

The credit ratings, information or data contained in this report which are attributed and specifically provided by Standard & Poor's, Moody's and Fitch Solutions and their respective affiliates and suppliers ('Content Providers') is referred to here as the 'Content'. Reproduction of any Content in any form is prohibited except with the prior written permission of the relevant party. The Content Providers do not guarantee the accuracy, adequacy, completeness, timeliness or availability of any Content and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such Content. The Content Providers expressly disclaim liability for any damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with any use of the Content. A reference to a particular investment or security, a rating or any observation concerning an investment that is part of the Content is not a recommendation to buy, sell or hold any such investment or security, nor does it address the suitability of an investment or security and should not be relied on as investment advice.

Credit ratings for securities classified as 'Other'

Securities for continuing operations with credit ratings classified as 'Other' can be further analysed as follows for Asia and US non-linked shareholder-backed.

	31 Dec 2019 \$m	31 Dec 2018 \$m
Asia		
Government bonds*	323	46
Corporate bonds rated by local external rating agencies		
AAA	184	239
AA+ to AA-	958	702
A+ to A-	345	241
BBB+ to BBB-	91	39
Below BBB- and unrated	32	25
	1,610	1,246
Other (asset-backed securities)†	371	163
Total Asia	2,304	1,455

* 99.7 per cent are investment grade (2018: 92 per cent).

† Primarily unrated.

US	31 Dec 2019 \$m			31 Dec 2018 \$m
	Mortgage-backed securities	Other securities	Total	Total
Implicit ratings based on NAIC valuations*				
NAIC 1	3,367	4,430	7,797	6,376
NAIC 2	1	3,470	3,471	2,697
NAIC 3-6	2	91	93	47
Total US†	3,370	7,991	11,361	9,120

* The Securities Valuation Office of the NAIC classifies debt securities into six quality categories ranging from Class 1 (the highest) to Class 6 (the lowest). Performing securities are designated as Classes 1 to 5 and securities in or near default are designated Class 6.

† Mortgage-backed securities totalling \$3,180 million at 31 December 2019 have credit ratings issued by Standard & Poor's of BBB- or above and hence are designated as investment grade. Other securities totalling \$7,900 million at 31 December 2019 with NAIC ratings 1 or 2 are also designated as investment grade.

(b) Additional analysis of US insurance operations debt securities

	31 Dec 2019 \$m	31 Dec 2018 \$m
Corporate and government security and commercial loans:		
Government	7,890	6,960
Publicly traded and SEC Rule 144A securities*	34,781	33,363
Non-SEC Rule 144A securities	9,842	8,061
Asset-backed securities (see note (c))	6,015	4,590
Total US debt securities†	58,528	52,974

* A 1990 SEC rule that facilitates the resale of privately placed securities under Rule 144A that are without SEC registration to qualified institutional investors. The rule was designed to develop a more liquid and efficient institutional resale market for unregistered securities.

† Debt securities for US operations included in the statement of financial position comprise:

	31 Dec 2019 \$m	31 Dec 2018 \$m
Available-for-sale	57,091	52,025
Fair value through profit and loss	1,437	949
	58,528	52,974

Movements in unrealised gains and losses on Jackson available-for-sale securities

The movement in the statement of financial position value for debt securities classified as available-for-sale from a net unrealised loss of \$527 million to a net unrealised gain of \$3,496 million as analysed in the table below.

	31 Dec 2019	Changes in unrealised appreciation reflected in other comprehensive income		31 Dec 2018
	\$m	\$m	\$m	\$m
Assets fair valued at below book value				
Book value*	3,121			32,260
Unrealised gain (loss)	(27)	1,151		(1,178)
Fair value (as included in statement of financial position)	3,094			31,082
Assets fair valued at or above book value				
Book value*	50,474			20,292
Unrealised gain (loss)	3,523	2,872		651
Fair value (as included in statement of financial position)	53,997			20,943
Total				
Book value*	53,595			52,552
Net unrealised gain (loss)	3,496	4,023		(527)
Fair value (as included in the footnote above in the overview table and the statement of financial position)	57,091			52,025

* Book value represents cost or amortised cost of the debt securities.

Jackson debt securities classified as available-for-sale in an unrealised loss position

(i) Fair value of securities as a percentage of book value

The following table shows the fair value of the debt securities in a gross unrealised loss position for various percentages of book value:

	31 Dec 2019 \$m		31 Dec 2018 \$m	
	Fair value	Unrealised loss	Fair value	Unrealised loss
Between 90% and 100%	3,083	(25)	30,136	(1,030)
Between 80% and 90%	11	(2)	900	(132)
Below 80%	–	–	46	(16)
Total	3,094	(27)	31,082	(1,178)

(ii) Unrealised losses by maturity of security

	31 Dec 2019 \$m	31 Dec 2018 \$m
1 year to 5 years	(1)	(92)
5 years to 10 years	(12)	(555)
More than 10 years	(7)	(474)
Mortgage-backed and other debt securities	(7)	(57)
Total	(27)	(1,178)

(iii) Age analysis of unrealised losses for the periods indicated

The following table shows the age analysis of all the unrealised losses in the portfolio by reference to the length of time the securities have been in an unrealised loss position:

Age analysis	31 Dec 2019 \$m			31 Dec 2018 \$m		
	Non-investment grade	Investment grade*	Total	Non-investment grade	Investment grade*	Total
Less than 6 months	(1)	(20)	(21)	(26)	(179)	(205)
6 months to 1 year	(1)	(1)	(2)	(28)	(560)	(588)
1 year to 2 years	-	(1)	(1)	(13)	(181)	(194)
2 years to 3 years	-	(1)	(1)	-	(157)	(157)
More than 3 years	-	(2)	(2)	(2)	(32)	(34)
Total	(2)	(25)	(27)	(69)	(1,109)	(1,178)

* For Standard and Poor, Moody's and Fitch rated debt securities, those with ratings range from AAA to BBB- are designated as investment grade. For NAIC rated debt securities, those with ratings 1 or 2 are designated as investment grade.

Further, the following table shows the age analysis of the securities whose fair values were below 80 per cent of the book value:

Age analysis	31 Dec 2019 \$m		31 Dec 2018 \$m	
	Fair value	Unrealised loss	Fair value	Unrealised loss
Less than 3 months	-	-	41	(13)
3 months to 6 months	-	-	2	(1)
More than 6 months	-	-	3	(2)
Total below 80%	-	-	46	(16)

(c) **Asset-backed securities**

The Group's holdings in asset-backed securities (ABS), which comprise residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), collateralised debt obligations (CDO) funds and other asset-backed securities, as at 31 December 2019 are as follows:

	31 Dec 2019 \$m	31 Dec 2018 \$m
Asia operations: ^{note (i)}		
Shareholder-backed business	189	154
With-profits business	369	299
US operations: ^{note (ii)}	6,015	4,590
Other operations	-	566
Total for continuing operations	6,573	5,609
Total for discontinued UK and Europe operations	-	8,503
Group total	6,573	14,112

Notes

- (i) Of the Asia operations' exposure to asset-backed securities for the shareholder-backed business and with-profits business at 31 December 2019, 100 per cent (31 December 2018: 99.8 per cent) are investment grade.
- (ii) US operations' exposure to asset-backed securities comprises:

	31 Dec 2019 \$m	31 Dec 2018 \$m
RMBS		
Sub-prime (31 Dec 2019: 2% AAA, 3% AA, 3% A)	93	122
Alt-A (31 Dec 2019: 51% A)	116	134
Prime including agency (2019: 23% AAA, 61% AA, 10% A)	862	562
CMBS (31 Dec 2019: 76% AAA, 16% AA, 4% A)	3,080	2,477
CDO funds (31 Dec 2019: 46% AAA, 38% AA, 16% A), including \$nil exposure to sub-prime	696	17
Other ABS (31 Dec 2019: 16% AAA, 11% AA, 54% A), including \$84 million exposure to sub-prime	1,168	1,278
Total (31 Dec 2019: 50% AAA, 24% AA, 17% A)	6,015	4,590

(d) **Group sovereign debt and bank debt exposure**

The Group exposures held by the shareholder-backed business and with-profits funds in sovereign debts and bank debt securities are analysed below. The tables exclude assets held to cover linked liabilities and those of the consolidated unit trusts and similar funds. In addition, the tables below exclude the proportionate share of sovereign debt holdings of the Group's joint venture operations.

Exposure to sovereign debts

	31 Dec 2019 \$m		31 Dec 2018 \$m	
	Shareholder-backed business*	With-profits funds	Shareholder-backed business	With-profits funds
Eurozone	-	-	481	560
United Kingdom	615	-	4,109	3,837
United States	9,526	20,338	7,192	15,102
Indonesia	420	-	359	-
Singapore	230	3,514	209	2,112
Thailand	1,416	-	1,173	-
Vietnam	2,900	-	2,383	-
Other Asia	2,722	562	2,266	1,103
Other	143	32	159	282
Total	17,972	24,446	18,331	22,996
Analysed as:				
Total from continuing operations			14,848	16,740
Total from discontinued UK and Europe operations			3,483	6,256
			<u>18,331</u>	<u>22,996</u>

* Includes \$1.4 billion of sovereign debt held by the Group's treasury function, Africa operations and asset management operations.

Exposure to bank debt securities

Shareholder-backed business	31 Dec 2019 \$m				31 Dec 2018 \$m	
	Senior debt	Subordinated debt			Total	Total
	Total	Tier 1	Tier 2	Total		
Eurozone	310	-	27	27	337	608
United Kingdom	568	17	138	155	723	1,714
United States	3,084	7	43	50	3,134	3,397
Asia	439	165	389	554	993	754
Other	516	-	131	131	647	821
Total	4,917	189	728	917	5,834	7,294

Analysed as:

Total from continuing operations						5,910
Total from discontinued UK and Europe operations						1,384
						<u>7,294</u>

With-profits funds

Eurozone	29	-	102	102	131	1,243
United Kingdom	41	3	111	114	155	2,794
United States	30	1	3	4	34	3,477
Asia	307	479	344	823	1,130	1,293
Other	73	-	211	211	284	2,305
Total	480	483	771	1,254	1,734	11,112

Analysed as:

Total from continuing operations						1,639
Total from discontinued UK and Europe operations						9,473
						<u>11,112</u>

C3.3 Loans portfolio

(a) Overview of loans portfolio

Loans are principally accounted for at amortised cost, net of impairment except for certain policy loans of the US insurance operations that are held to back liabilities for funds withheld under reinsurance arrangements and are also accounted on a fair value basis.

The amounts included in the statement of financial position are analysed as follows:

	31 Dec 2019 \$m				31 Dec 2018 \$m			
	Mortgage loans note (i)	Policy loans note (ii)	Other loans	Total	Mortgage loans note (i)	Policy loans note (ii)	Other loans	Total
Asia								
With-profits	–	1,089	374	1,463	–	926	83	1,009
Non-linked shareholder-backed	165	316	19	500	199	288	259	746
US								
Non-linked shareholder-backed	9,904	4,707	–	14,611	9,406	4,688	–	14,094
Other operations	–	9	–	9	–	–	–	–
Total continuing operations	10,069	6,121	393	16,583	9,605	5,902	342	15,849
Total discontinued UK and Europe operations					5,241	4	1,844	7,089
Total Group					14,846	5,906	2,186	22,938

Notes

(i) All mortgage loans are secured by properties.

(ii) In the US, \$3,587 million of policy loans held at 31 December 2019 (31 December 2018: \$3,544 million) are backing liabilities for funds withheld under reinsurance arrangements and are accounted for at fair value through profit or loss. All other policy loans are accounted for at amortised cost, less any impairment.

(b) Additional information on US mortgage loans

In the US, mortgage loans are all commercial mortgage loans that are secured by the following property types: industrial, multi-family residential, suburban office, retail or hotel. The average loan size is \$19.3 million (31 December 2018: \$17.8 million). The portfolio has a current estimated average loan to value of 54 per cent (31 December 2018: 53 per cent).

Jackson had no mortgage loans where the contractual terms of the agreements had been restructured for both years shown.

C4 Policyholder liabilities and unallocated surplus

The note provides information of policyholder liabilities and unallocated surplus of with-profits funds held on the Group's statement of financial position:

C4.1 Group overview

(i) Analysis of movements in policyholder liabilities and unallocated surplus of with-profits funds^{notes (a), (b)}

	Asia \$m note C4.2	US \$m note C4.3	Discontinued UK and Europe operations \$m	Total \$m
Balance at 1 January 2018	99,890	244,483	244,946	589,319
<i>Comprising:</i>				
– Policyholder liabilities on the consolidated statement of financial position ^{note (c)} (excludes \$43 million classified as unallocated to a segment)	85,089	244,483	226,715	556,287
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	4,700	–	18,231	22,931
– Group's share of policyholder liabilities of joint ventures and associate ^{note (d)}	10,101	–	–	10,101
Reclassification of reinsured UK annuity contracts as held for sale	–	–	(14,689)	(14,689)
Net flows:				
Premiums	17,607	18,613	18,707	54,927
Surrenders	(3,729)	(16,211)	(9,053)	(28,993)
Maturities/deaths	(2,641)	(2,687)	(9,074)	(14,402)
Net flows	11,237	(285)	580	11,532
Addition for closed block of group payout annuities in the US	–	5,532	–	5,532
Shareholders' transfers post-tax	(87)	–	(346)	(433)
Investment-related items and other movements	(3,718)	(13,350)	(7,318)	(24,386)
Foreign exchange translation differences	(1,914)	–	(13,171)	(15,085)
Balance at 31 December 2018/1 January 2019	105,408	236,380	210,002	551,790
<i>Comprising:</i>				
– Policyholder liabilities on the consolidated statement of financial position ^{note (c)} (excludes \$50 million classified as unallocated to a segment)	91,836	236,380	193,020	521,236
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	3,198	–	16,982	20,180
– Group's share of policyholder liabilities of joint ventures and associate ^{note (d)}	10,374	–	–	10,374
Demerger of UK and Europe operations	–	–	(210,002)	(210,002)
Net flows:				
Premiums	20,094	20,976	–	41,070
Surrenders	(4,156)	(17,342)	–	(21,498)
Maturities/deaths	(2,800)	(3,387)	–	(6,187)
Net flows	13,138	247	–	13,385
Shareholders' transfers post-tax	(99)	–	–	(99)
Investment-related items and other movements	12,824	32,922	–	45,746
Foreign exchange translation differences	1,299	–	–	1,299
Balance at 31 December 2019	132,570	269,549	–	402,119
<i>Comprising:</i>				
– Policyholder liabilities on the consolidated statement of financial position (excludes \$186 million classified as unallocated to a segment)	115,943	269,549	–	385,492
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	4,750	–	–	4,750
– Group's share of policyholder liabilities of joint ventures and associate ^{note (d)}	11,877	–	–	11,877
Average policyholder liability balances ^{note (e)}				
2019	115,015	252,965	n/a	367,980
2018	98,698	239,049	213,492	551,239

Notes

- The items above represent the amount attributable to changes in policyholder liabilities and unallocated surplus of with-profits funds as a result of each of the components listed. The policyholder liabilities shown include investment contracts without discretionary participation features (as defined in IFRS 4) and their full movement in the year but exclude liabilities that have not been allocated to a reporting segment. The items above are shown gross of external reinsurance.
- The analysis includes the impact of premiums, claims and investment movements on policyholders' liabilities. The impact does not represent premiums, claims and investment movements as reported in the income statement. For example, premiums shown above exclude any deductions for fees/charges; claims (surrenders, maturities and deaths) shown above represent the policyholder liabilities provision released rather than the claims amount paid to the policyholder.
- The policyholder liabilities of the Asia insurance operations at 31 December 2018 of \$91,836 million were after deducting the intra-group reinsurance liabilities ceded by the discontinued UK and Europe operations of \$1,412 million to the Hong Kong with-profits business, which were recaptured in October 2019 upon demerger. Including this amount, total Asia policyholder liabilities at 31 December 2018 were \$93,248 million.
- The Group's investment in joint ventures and associate are accounted for on an equity method basis in the Group's statement of financial position. The Group's share of the policyholder liabilities as shown above relates to life businesses of the China JV, India and the Takaful business in Malaysia.
- Average policyholder liabilities have been based on opening and closing balances, adjusted for acquisitions, disposals and other corporate transactions arising in the year, and exclude unallocated surplus of with-profits funds.

(ii) Analysis of movements in policyholder liabilities for shareholder-backed business

	Asia \$m	US \$m	Discontinued UK and Europe operations \$m	Total \$m
Balance at 1 January 2018	50,598	244,483	76,254	371,335
Reclassification of reinsured UK annuity contracts as held for sale	–	–	(14,689)	(14,689)
Net flows:				
Premiums	9,015	18,613	1,984	29,612
Surrenders	(3,278)	(16,211)	(2,692)	(22,181)
Maturities/deaths	(1,396)	(2,687)	(2,996)	(7,079)
Net flows ^{note}	4,341	(285)	(3,704)	352
Addition for closed block of group payout annuities in the US	–	5,532	–	5,532
Investment-related items and other movements	(1,608)	(13,350)	(2,637)	(17,595)
Foreign exchange translation differences	(1,626)	–	(3,313)	(4,939)
Balance at 31 December 2018/1 January 2019	51,705	236,380	51,911	339,996
<i>Comprising:</i>				
- Policyholder liabilities on the consolidated statement of financial position (excludes \$50 million classified as unallocated to a segment)	41,331	236,380	51,911	329,622
- Group's share of policyholder liabilities relating to joint ventures and associate	10,374	–	–	10,374
Demerger of UK and Europe operations	–	–	(51,911)	(51,911)
Net flows:				
Premiums	10,372	20,976	–	31,348
Surrenders	(3,610)	(17,342)	–	(20,952)
Maturities/deaths	(1,168)	(3,387)	–	(4,555)
Net flows ^{note}	5,594	247	–	5,841
Investment-related items and other movements	4,186	32,922	–	37,108
Foreign exchange translation differences	777	–	–	777
Balance at 31 December 2019	62,262	269,549	–	331,811
<i>Comprising:</i>				
- Policyholder liabilities on the consolidated statement of financial position (excludes \$186 million classified as unallocated to a segment)	50,385	269,549	–	319,934
- Group's share of policyholder liabilities relating to joint ventures and associate	11,877	–	–	11,877

Note

Including net flows of the Group's insurance joint ventures and associate.

C4.2 Asia insurance operations

(i) Analysis of movements in policyholder liabilities and unallocated surplus of with-profits funds

	Shareholder-backed business			Total \$m
	With-profits business \$m	Unit-linked liabilities \$m	Other business \$m	
Balance at 1 January 2018	49,292	27,093	23,505	99,890
<i>Comprising:</i>				
– Policyholder liabilities on the consolidated statement of financial position	44,592	22,001	18,496	85,089
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	4,700	–	–	4,700
– Group's share of policyholder liabilities relating to joint ventures and associate ^{note (a)}	–	5,092	5,009	10,101
Premiums				
New business	1,542	1,904	1,449	4,895
In-force	7,050	2,359	3,303	12,712
	8,592	4,263	4,752	17,607
Surrenders ^{note (b)}	(451)	(2,542)	(736)	(3,729)
Maturities/deaths	(1,245)	(187)	(1,209)	(2,641)
Net flows	6,896	1,534	2,807	11,237
Shareholders' transfers post-tax	(87)	–	–	(87)
Investment-related items and other movements ^{note (c)}	(2,110)	(1,903)	295	(3,718)
Foreign exchange translation differences ^{note (d)}	(288)	(1,020)	(606)	(1,914)
Balance at 31 December 2018/1 January 2019	53,703	25,704	26,001	105,408
<i>Comprising:</i>				
– Policyholder liabilities on the consolidated statement of financial position	50,505	20,846	20,485	91,836
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	3,198	–	–	3,198
– Group's share of policyholder liabilities relating to joint ventures and associate ^{note (a)}	–	4,858	5,516	10,374
Premiums				
New business	1,611	1,837	2,419	5,867
In-force	8,111	2,361	3,755	14,227
	9,722	4,198	6,174	20,094
Surrenders ^{note (b)}	(546)	(2,929)	(681)	(4,156)
Maturities/deaths	(1,632)	(149)	(1,019)	(2,800)
Net flows	7,544	1,120	4,474	13,138
Shareholders' transfers post-tax	(99)	–	–	(99)
Investment-related items and other movements ^{note (c)}	8,638	1,663	2,523	12,824
Foreign exchange translation differences ^{note (d)}	522	363	414	1,299
Balance at 31 December 2019	70,308	28,850	33,412	132,570
<i>Comprising:</i>				
– Policyholder liabilities on the consolidated statement of financial position	65,558	23,571	26,814	115,943
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	4,750	–	–	4,750
– Group's share of policyholder liabilities relating to joint ventures and associate ^{note (a)}	–	5,279	6,598	11,877
Average policyholder liability balances ^{note (e)}				
2019	58,032	27,277	29,706	115,015
2018	47,548	26,398	24,752	98,698

Notes

- The Group's investment in joint ventures and associate are accounted for on an equity method and the Group's share of the policyholder liabilities as shown above relate to the life business of the China JV, India and the Takaful business in Malaysia.
- The rate of surrenders for shareholder-backed business (expressed as a percentage of opening policyholder liabilities) was 7.0 per cent in 2019 (2018: 6.6 per cent).
- Investment-related items and other movements in 2019 primarily represent equity market gains from the with-profits business and effects from lower interest rates.
- Movements in the year have been translated at the average exchange rates for the year ended 31 December 2019. The closing balance has been translated at the closing spot rates as at 31 December 2019. Differences upon retranslation are included in foreign exchange translation differences.
- Average policyholder liabilities have been based on opening and closing balances, adjusted for any acquisitions, disposals and other corporate transactions arising in the year, and exclude unallocated surplus of with-profits funds.

(ii) Duration of policyholder liabilities

The table below shows the carrying value of policyholder liabilities and the maturity profile of the cash flows on a discounted basis, taking account of expected future premiums and investment returns:

	31 Dec 2019 \$m	31 Dec 2018 \$m
Policyholder liabilities	115,943	91,836
Expected maturity:	31 Dec 2019 %	31 Dec 2018 %
0 to 5 years	18	20
5 to 10 years	18	19
10 to 15 years	15	15
15 to 20 years	13	12
20 to 25 years	11	10
Over 25 years	25	24

C4.3 US insurance operations

(i) Analysis of movements in policyholder liabilities

	Variable annuity separate account liabilities \$m	Fixed annuity, GICs and other business \$m	Total \$m
Balance at 1 January 2018	176,578	67,905	244,483
Premiums	14,646	3,967	18,613
Surrenders	(11,746)	(4,465)	(16,211)
Maturities/deaths	(1,449)	(1,238)	(2,687)
Net flows	1,451	(1,736)	(285)
Addition for closed block of group payout annuities in the US	–	5,532	5,532
Transfers from general to separate account	708	(708)	–
Investment-related items and other movements	(15,436)	2,086	(13,350)
Balance at 31 December 2018/1 January 2019	163,301	73,079	236,380
Premiums	12,776	8,200	20,976
Surrenders	(12,767)	(4,575)	(17,342)
Maturities/deaths	(1,564)	(1,823)	(3,387)
Net flows ^{note (a)}	(1,555)	1,802	247
Transfers from general to separate account	951	(951)	–
Investment-related items and other movements ^{note (b)}	32,373	549	32,922
Balance at 31 December 2019	195,070	74,479	269,549
Average policyholder liability balances ^{note (c)}			
2019	179,186	73,779	252,965
2018	169,940	69,109	239,049

Notes

- (a) Net inflows in 2019 are \$247 million with new inflows into fixed annuity, fixed index annuity and the general account exceeding withdrawals and surrenders on this business, partially offset by net outflows from variable annuity business as the portfolio matures.
- (b) Positive investment-related items and other movements largely represent positive separate account returns following the increase in the US equity market in the year and asset gains arising from declining bond yields.
- (c) Average policyholder liabilities have been based on opening and closing balances, adjusted for any acquisitions, disposals and other corporate transactions arising in the year.

(ii) Duration of policyholder liabilities

The table below shows the carrying value of policyholder liabilities and maturity profile of the cash flows on a discounted basis at the balance sheet date:

	31 Dec 2019			31 Dec 2018		
	Variable annuity separate account liabilities \$m	Fixed annuity, GICs and other business \$m	Total \$m	Variable annuity separate account liabilities \$m	Fixed annuity, GICs and other business \$m	Total \$m
Policyholder liabilities	195,070	74,479	269,549	163,301	73,079	236,380
Expected maturity:	%	%	%	%	%	%
0 to 5 years	41	45	42	40	51	43
5 to 10 years	27	27	27	28	24	27
10 to 15 years	16	13	15	16	12	15
15 to 20 years	9	8	9	9	7	8
20 to 25 years	4	4	4	4	3	4
Over 25 years	3	3	3	3	3	3

C5 Intangible assets

C5.1 Goodwill

Goodwill shown on the consolidated statement of financial position at 31 December 2019 is wholly attributable to shareholders and represents amounts allocated to businesses in Asia and Africa in respect of both acquired asset management and life businesses.

	31 Dec 2019 \$m	31 Dec 2018 \$m
Carrying value at beginning of year	2,365	2,005
Demerger of UK and Europe operations	(1,731)	–
Additions in the year	299	503
Disposals/reclassifications to held for sale	–	(13)
Exchange differences	36	(130)
Carrying value at end of year	969	2,365

C5.2 Deferred acquisition costs and other intangible assets

	31 Dec 2019 \$m	31 Dec 2018 \$m
Deferred acquisition costs and other intangible assets attributable to shareholders		
From continuing operations	17,409	14,865
From discontinued operations	–	143
Total	17,409	15,008
Other intangible assets, including computer software, attributable to with-profits funds		
From continuing operations	67	71
From discontinued operations	–	106
Total	67	177
Total of deferred acquisition costs and other intangible assets	17,476	15,185

The deferred acquisition costs and other intangible assets attributable to shareholders comprise:

	31 Dec 2019 \$m	31 Dec 2018 \$m
Deferred acquisition costs related to insurance contracts as classified under IFRS 4	14,206	12,758
Deferred acquisition costs related to investment management contracts, including life assurance contracts classified as financial instruments and investment management contracts under IFRS 4	33	99
Deferred acquisition costs related to insurance and investment contracts	14,239	12,857
Present value of acquired in-force policies for insurance contracts as classified under IFRS 4 (PVIF)	38	43
Distribution rights and other intangibles	3,132	2,108
Present value of acquired in-force (PVIF) and other intangibles attributable to shareholders	3,170	2,151
Total of deferred acquisition costs and other intangible assets^{note (a)}	17,409	15,008

Notes

(a) Total deferred acquisition costs and other intangible assets attributable to shareholders can be further analysed by business operations as follows:

	31 Dec 2019 \$m				31 Dec 2018 \$m	
	Deferred acquisition costs				Total	Total
	Asia insurance	US insurance* note (b)	Discontinued UK and Europe operations	PVIF and other intangibles†		
Balance at 1 January	1,610	11,113	134	2,151	15,008	14,700
Demerger of UK and Europe operations	-	-	(134)	(9)	(143)	-
Additions‡	615	807	-	1,179	2,601	1,666
Amortisation to the income statement:						
Adjusted IFRS operating profit based on longer-term investment returns	(257)	(297)	-	(238)	(792)	(1,370)
Non-operating profit (loss)	-	1,248	-	(5)	1,243	(156)
	(257)	951	-	(243)	451	(1,526)
Disposals and transfers	-	-	-	(11)	(11)	(19)
Exchange differences and other movements	31	-	-	103	134	(141)
Amortisation of DAC related to net unrealised valuation movements on the US insurance operation's available-for-sale securities recognised within other comprehensive income	-	(631)	-	-	(631)	328
Balance at 31 December	1,999	12,240	-	3,170	17,409	15,008

* Under the Group's application of IFRS 4, US GAAP is used for measuring the insurance assets and liabilities of its US and certain Asia operations. Under US GAAP, most of the US insurance operation's products are accounted for under Accounting Standard no. 97 of the Financial Accounting Standards Board (FAS 97) whereby deferred acquisition costs are amortised in line with the emergence of actual and expected gross profits which are determined using an assumption for long-term investment returns for the separate account of 7.4 per cent (2018: 7.4 per cent), gross of asset management fees and other charges to policyholders, but net of external fund management fees. The other assumption impacting expected gross profits include mortality assumptions, lapses, assumed unit costs and future hedge costs. The amounts included in the income statement and other comprehensive income affect the pattern of profit emergence and thus the DAC amortisation attaching. DAC amortisation is allocated to the operating and non-operating components of the Group's supplementary analysis of profit and other comprehensive income by reference to the underlying items.

† PVIF and other intangibles comprise present value of acquired in-force (PVIF), distribution rights and other intangibles such as software rights. Distribution rights relate to amounts that have been paid or have become unconditionally due for payment as a result of past events in respect of bancassurance partnership arrangements in Asia. These agreements allow for bank distribution of Prudential's insurance products for a fixed period of time. Software rights include additions of \$51 million, amortisation of \$(33) million, disposals of \$5 million, foreign exchange of \$2 million and closing balance at 31 December 2019 of \$85 million (31 December 2018: \$70 million for continuing operations).

‡ In January 2019, the Group renewed its regional strategic bancassurance alliance with United Overseas Bank Limited (UOB). The new agreement extends the original alliance, which commenced in 2010, to 2034 and increases the geographical scope to include a fifth market, Vietnam, alongside the existing markets of Singapore, Malaysia, Thailand and Indonesia. As part of this transaction, Prudential has agreed to pay UOB an initial fee of \$853 million (equivalent to SGD1,150 million) for distribution rights which are not dependent on future sales volumes. Of the \$853 million, \$301 million was paid in 2019, with another two instalments being payable in 2020 and 2021. After allowing for discounting, the amount included in additions in the table above is \$834 million.

(b) The DAC amount in respect of US arises in the insurance operations which comprises the following amounts:

	31 Dec 2019 \$m	31 Dec 2018 \$m
Variable annuity business	12,406	10,796
Other business	529	381
Cumulative shadow DAC (for unrealised gains/losses booked in other comprehensive income)*	(695)	(64)
Total DAC for US operations	12,240	11,113

* A loss of \$(631) million (2018: a gain of \$328 million) for shadow DAC amortisation is booked within other comprehensive income to reflect the impact from the positive unrealised valuation movement of \$4,023 million (2018: negative unrealised valuation movement of \$(2,159) million). These adjustments reflect the movement from year to year, in the changes to the pattern of reported gross profit that would have happened if the assets reflected in the statement of financial position had been sold, crystallising the unrealised gains and losses, and the proceeds reinvested at the yields currently available in the market. At 31 December 2019, the cumulative shadow DAC balance as shown in the table above was negative \$(695) million (31 December 2018: negative \$(64) million).

(c) Sensitivity of US DAC amortisation charge

The amortisation charge to the income statement in respect of the US DAC asset is reflected in both adjusted IFRS operating profit based on longer-term investment returns and short-term fluctuations in investment returns. The amortisation charge to adjusted IFRS operating profit based on longer-term investment returns in a reporting period comprises:

- A core amount that reflects a relatively stable proportion of underlying premiums or profit; and
- An element of acceleration or deceleration arising from market movements differing from expectations.

In periods where the cap and floor features of the mean reversion technique (which is used for moderating the effect of short-term volatility in investment returns) are not relevant, the technique operates to dampen the second element above. Nevertheless, extreme market movements can cause material acceleration or deceleration of amortisation in spite of this dampening effect.

Furthermore, in those periods where the cap or floor is relevant, the mean reversion technique provides no further dampening and additional volatility may result.

In 2019, the DAC amortisation charge for adjusted IFRS operating profit based on longer-term investment returns was determined after including a credit for decelerated amortisation of \$280 million (2018: \$259 million charge for acceleration). The deceleration arising in 2019 reflects a mechanical decrease in the projected separate account return for the next five years under the mean-reversion technique. Under this technique, the projected level of return for each of the next five years is adjusted so that, in combination with the actual rates of return for the preceding three years (including the current year), the assumed long-term annual separate account return of 7.4 per cent is realised on average over the entire eight-year period. The deceleration in DAC amortisation in 2019 is primarily driven by the actual separate account return in the year being higher than that assumed.

The application of the mean reversion formula has the effect of dampening the impact of equity market movements on DAC amortisation while the mean reversion assumption lies within the corridor. At 31 December 2019, it would take approximate movements in separate account values of more than either negative 26 per cent or positive 49 per cent for mean reversion assumption to move outside the corridor.

C6 Borrowings

C6.1 Core structural borrowings of shareholder-financed businesses

	31 Dec 2019 \$m	31 Dec 2018 \$m
Central operations:		
Subordinated debt substituted to M&G plc in 2019:		
£600m 5.56% (30 Jun and 31 Dec 2018: 5.0%) Notes 2055 ^{note (i)}	–	753
£700m 6.34% (30 Jun and 31 Dec 2018: 5.7%) Notes 2063 ^{note (i)}	–	886
£750m 5.625% Notes 2051	–	947
£500m 6.25% Notes 2068	–	634
US\$500m 6.5% Notes 2048	–	498
Total subordinated debt substituted to M&G plc in 2019 ^{note (ii)}	–	3,718
Subordinated and other debt not substituted to M&G plc:		
US\$250m 6.75% Notes ^{note (iii)}	250	250
US\$300m 6.5% Notes ^{note (iii)}	300	299
Perpetual Subordinated Capital Securities	550	549
US\$700m 5.25% Notes	700	700
US\$1,000m 5.25% Notes	996	993
US\$725m 4.375% Notes	721	720
US\$750m 4.875% Notes	744	743
Perpetual Subordinated Capital Securities	3,161	3,156
€20m Medium Term Notes 2023	22	23
£435m 6.125% Notes 2031	571	549
£400m 11.375% Notes 2039 ^{note (iv)}	–	508
Subordinated notes	593	1,080
Subordinated debt total	4,304	4,785
Senior debt: ^{note (v)}		
£300m 6.875% Bonds 2023	392	375
£250m 5.875% Bonds 2029	298	283
Bank loans ^{note (vi)}		
\$350m Loan 2024	350	–
£275m Loan 2022	–	350
Total debt not substituted to M&G plc in 2019	5,344	5,793
Total central operations	5,344	9,511
Jackson US\$250m 8.15% Surplus Notes 2027 ^{note (vii)}	250	250
Total core structural borrowings of shareholder-financed businesses^{note (viii)}	5,594	9,761

Notes

- (i) In 2019, the Group agreed with the holders of these two subordinated debt instruments that, in return for an increase in the coupon of the two instruments and upfront fees totalling \$182 million for both instruments, they would permit the substitution of M&G plc as the issuer of the instruments, together with other modifications of terms to ensure the debt meet the requirements of Solvency II. In accordance with IAS 39, this has been accounted for as an extinguishment of the old debt and the issuance of new debt, recognised at fair value. The debt was substituted to M&G plc in October 2019. The \$182 million of upfront fees have been paid by Prudential plc and have been treated as a non-operating expense from continuing operations.
- (ii) In 2019, Prudential plc transferred subordinated debt to M&G plc as part of the demerger. In addition to the subordinated debt held at 31 December 2018 as shown in the table above, the debt transferred included the further £300 million 3.875 per cent subordinated debt raised in July 2019.
- (iii) These borrowings can be converted, in whole or in part, at the Company's option and subject to certain conditions, on any interest payment date, into one or more series of Prudential preference shares.
- (iv) In May 2019, the Company redeemed its £400 million 11.375 per cent Tier 2 subordinated notes.
- (v) The senior debt ranks above subordinated debt in the event of liquidation.
- (vi) The bank loan of \$350 million was drawn in November 2019 at a cost of LIBOR plus 0.2 per cent. The loan matures on 7 November 2024. The £275 million bank loan was repaid by the Group in October 2019.
- (vii) Jackson's borrowings are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims of Jackson.
- (viii) The changes in the carrying value of the structural borrowings of shareholder-financed businesses for the Group (including both continuing and discontinued operations) are analysed below:

	Cash movements \$m				Non-cash movements \$m			Balance at end of year
	Balance at beginning of year	Issue of debt	Redemption of debt	Payment for change to terms of debt	Foreign exchange movement	Demerger of UK and Europe operations	Other movements	
2019	9,761	367	(504)	(182)	298	(4,161)	15	5,594
2018	8,496	2,079	(553)	(44)	(232)	–	15	9,761

Ratings

Prudential plc has debt ratings from Standard & Poor's, Moody's and Fitch. Prudential plc's long-term senior debt is rated A2 by Moody's, A by Standard & Poor's and A- by Fitch.

Prudential plc's short-term debt is rated as P-1 by Moody's, A-1 by Standard & Poor's and F1 by Fitch.

Jackson National Life Insurance Company's financial strength is rated AA- by Standard & Poor's and Fitch, A1 by Moody's and A+ by A.M. Best.

Prudential Assurance Co. Singapore (Pte) Ltd.'s (Prudential Singapore) financial strength is rated AA- by Standard & Poor's.

All the Group's ratings are on a stable outlook.

C6.2 Operational borrowings

	31 Dec 2019 \$m	31 Dec 2018 \$m
Borrowings in respect of short-term fixed income securities programmes – commercial paper	520	601
Lease liabilities under IFRS 16 ^{note (a)}	371	–
Non-recourse borrowings of consolidated investment funds ^{note (b)}	1,045	448
Other borrowings ^{note (c)}	406	222
Operational borrowings attributable to shareholder-financed businesses	2,342	1,271
Non-recourse borrowings of consolidated investment funds ^{note (b)}	–	2,153
Lease liabilities under IFRS 16 ^{note (a)}	259	–
Other borrowings	44	2,865
Operational borrowings attributable to with-profits businesses^{note (d)}	303	5,018
Total operational borrowings	2,645	6,289
Analysed as:		
Total from continuing operations		1,160
Total from discontinued UK and Europe operations		5,129
		<u>6,289</u>

Notes

- The Group adopted IFRS 16 that replaces IAS 17 as at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated (as described in note A3). Further details on the Group's IFRS 16 adoption and operating leases are provided in notes A3.
- In all instances, the holders of the debt instruments issued by consolidated investment funds do not have recourse beyond the assets of those funds.
- Other borrowings mainly include senior debt issued through the Federal Home Loan Bank of Indianapolis (FHLB), secured by collateral posted with the FHLB by Jackson.
- Operational borrowings attributable to with-profits businesses at 31 December 2018 were mainly attributable to the discontinued UK and Europe operations (\$4,994 million) held in consolidated investment fund.

C7 Risk and sensitivity analysis

C7.1 Group overview

The Group's risk framework and the management of the risk, including those attached to the Group's financial statements including financial assets, financial liabilities and insurance liabilities, together with the inter-relationship with the management of capital have been included in the 'Group Chief Risk and Compliance Officer's Report on the risks facing our business and how these are managed'.

The financial and insurance assets and liabilities on the Group's balance sheet are, to varying degrees, subject to market and insurance risk and other changes of experience assumptions that may have a material effect on IFRS basis profit or loss and shareholders' equity. The market and insurance risks, including how they affect Group's operations and how these are managed are discussed in the Risk report referred to above.

The most significant items that the IFRS shareholders' profit or loss and shareholders' equity for the Group's life assurance business are sensitive to, are shown in the following tables. The distinction between direct and indirect exposure is not intended to indicate the relative size of the sensitivity.

Type of business	Market and credit risk			Insurance and lapse risk
	Investments/derivatives	Liabilities/unallocated surplus	Other exposure	
Asia insurance operations (see also section C7.2)				Mortality and morbidity risk Persistency risk
All business				
With-profits business	Net neutral direct exposure (indirect exposure only)		Investment performance subject to smoothing through declared bonuses	
Unit-linked business	Net neutral direct exposure (indirect exposure only)		Investment performance through asset management fees	
Non-participating business	Asset/liability mismatch risk Credit risk		Interest rates for those operations where the basis of insurance liabilities is sensitive to current market movements	
	Interest rate and price risk			
US insurance operations (see also section C7.3)				Persistency risk Risk that utilisation of withdrawal benefits or lapse levels differ from those assumed in pricing Minimal lapse risk
All business				
Variable annuity business	Net effect of market risk arising from incidence of guarantee features and variability of asset management fees offset by derivative hedging programme			
Fixed index annuity business	Derivative hedge programme to the extent not fully hedged against liability	Incidence of equity participation features and meeting contractual accumulation requirements		
Fixed index annuities, Fixed annuities and GIC business	Credit risk and interest rate risk on investments Profit and loss and shareholders' equity are volatile for the incidence of these risks on unrealised appreciation of fixed income securities classified as available-for-sale under IAS 39	Interest rate risk on liabilities (meeting guaranteed rates of accumulation on fixed annuity products)	Spread difference between earned rate and rate credited to policyholders	

Detailed analyses of sensitivity of IFRS basis profit or loss and shareholders' equity to key market and other risks by business unit are provided in notes C7.2, C7.3 and C7.4. The sensitivity analyses provided show the effect on profit or loss and shareholders' equity to changes in the relevant risk variables, all of which are reasonably possible at the relevant balance sheet date. In the equity risk sensitivity analysis shown, the Group has considered the impact of an instantaneous 20 per cent fall in equity markets. If equity markets were to fall by more than 20 per cent, the Group believes that this would not be an instantaneous fall but rather would be expected to occur over a period of time during which the hedge positions within Jackson, where equity risk is greatest, would be rebalanced. The equity risk sensitivity analysis provided assumes that all equity indices fall by the same percentage.

The published sensitivities only allow for limited management actions such as changes to policyholder bonuses, where applicable. If the economic conditions set out in the sensitivities persisted, the financial impacts may differ to the instantaneous

impacts. In this case management could also take additional actions to help mitigate the impact of these stresses, including (but not limited to) rebalancing investment portfolios, further market risk hedging, increased use of reinsurance, repricing of in-force benefits, changes to new business pricing and the mix of new business being sold.

Following the adoption of US dollar as the Group's presentation currency, the Group has no exposure to currency fluctuation from business units that operate in US dollars, or currencies pegged to the US dollar (such as Hong Kong dollars), and reduced exposure to currencies partially managed to the US dollar within a basket of currencies (such as Singapore dollars). Sensitivities to exchange rate movements in the Group's key markets are therefore expected to be limited.

Impact of diversification on risk exposure

The Group benefits from diversification benefits achieved through the geographical spread of the Group's operations and, within those operations, through a broad mix of product types. Relevant correlation factors include:

- Correlation across geographic regions for both financial and non-financial risk factors; and
- Correlation across risk factors for longevity risk, expenses, persistency and other risks.

Other limitations on the sensitivities include: the use of hypothetical market movements to demonstrate potential risk that only represent Prudential's view of reasonably possible near-term market changes and that cannot be predicted with any certainty; the assumption that interest rates in all countries move identically; and the lack of consideration of the inter-relation of interest rates, equity markets and foreign currency exchange rates.

C7.2 Asia insurance operations

Exposure and sensitivity of IFRS basis profit and shareholders' equity to market and other risks

The Asia operations sell with-profits and unit-linked policies, and the investment portfolio of the with-profits funds contains a proportion of equities. Shareholder exposure to market risk on these products is muted given the shareholders share this risk with the policyholders through its joint participation in with-profits funds results or through fees that vary with the size of the unit-linked funds. Non-participating business is largely backed by debt securities or deposits, which means that value of its assets fluctuate with interest rates. Depending on the reserving basis in the business unit, this may be offset by a consequential change in insurance liabilities as discount rates change accordingly. The Group's exposure to market risk arising from its Asia operations is therefore at modest levels.

Asia also sells regular premium health and protection business (which may attach to a unit-linked or other savings products). This exposes Asia to persistency, mortality and morbidity risk. This is discussed further below.

In summary, for Asia operations, the adjusted IFRS operating profit based on longer-term investment returns is mainly affected by the impact of market levels on unit-linked persistency and other insurance risks. At the total IFRS profit level, the Asia result is affected by short-term value movements on the asset portfolio for non-linked shareholder-backed business offset by the impact of changing interest rates on the discount rate used to determine insurance liabilities.

(i) Sensitivity to interest rate risk

Excluding with-profits and unit-linked businesses, the results of the Asia business are sensitive to the movements in interest rates, as described above.

For the purposes of analysing sensitivity to variations in interest rates, reference has been made to the movements in the 10-year government bond rates of the regions. At 31 December 2019, 10-year government bond rates vary from region to region and range from 0.7 per cent to 7.2 per cent (31 December 2018: 0.9 per cent to 8.1 per cent).

For the sensitivity analysis as shown in the table below, the reasonably possible interest rate movement used is 1 per cent for all local business units (subject to a floor of zero).

The estimated sensitivity to the decrease and increase in interest rates is as follows:

	2019 \$m		2018 \$m	
	Decrease of 1%	Increase of 1%	Decrease of 1%	Increase of 1%
Profit before tax attributable to shareholders	(705)	(744)	397	(430)
Related deferred tax (where applicable)	3	26	(19)	33
Net effect on profit after tax and shareholders' equity	(702)	(718)	378	(397)

The pre-tax impacts, if they arose, would mostly be recorded within short-term fluctuations in investments returns in the Group's segmental analysis of profit before tax.

The degree of sensitivity of the results of the non-linked shareholder-backed business of the Asia operations to movements in interest rates depends upon the degree to which the liabilities under the 'grandfathered' IFRS 4 measurement basis reflects market interest rates from year to year. This varies by local business unit. For example, for businesses applying US GAAP, the results can be more sensitive as the effect of interest rate movements on the backing investments may not be offset by liability movements. Further, the level of options and guarantees in the products written in the particular business unit will also affect the degree of sensitivity to interest rate movements. The direction of the sensitivity of the Asia operations as a whole in a given year can also be affected by a change in the geographical mix.

In addition, the degree of sensitivity of the results is dependent on the interest rate level at that point of time.

At 31 December 2018 the sensitivities were dominated by the impact of interest rate movements on the value of government and corporate bond investments, which are expected to increase in value as interest rates fall to a greater extent than the offsetting increase in liabilities (and vice versa if rates rise). This arises because the discount rate in some operations does not fluctuate in line with interest rate movements. This feature remains for most local business units at 31 December 2019 and is evident in the 'increase of 1%' sensitivity. The 'decrease of 1%' sensitivity at 31 December 2019 reflects that some local business units' liabilities become more sensitive at lower interest rates and the fluctuations in liabilities begin to exceed asset gains. As noted above, the results only allow for limited management actions, and if such economic conditions persisted management could take additional actions to help mitigate the impact of these stresses, including (but not limited to) rebalancing investment portfolios, increased use of reinsurance, changes to new business pricing and the mix of new business being sold.

(ii) Sensitivity to equity price risk

The non-linked shareholder-backed business has limited exposure to equity and property investment (31 December 2019: \$3,480 million; 31 December 2018: \$2,740 million). The increase in 2019 reflects higher equity markets and business growth. Generally, changes in equity and property investment values are not directly offset by movements in non-linked policyholder liabilities. Movements in equities backing with-profits and unit-linked business have been excluded as they are generally matched by an equal movement in insurance liabilities (including unallocated surplus of with-profits funds).

The estimated sensitivity to a 10 per cent and 20 per cent change in equity and property prices for shareholder-backed Asia other business (including those held by the Group's joint venture and associate businesses), which would be reflected in short-term fluctuations in investment returns of the Group's segmental analysis of profit before tax, is as follows:

	2019 \$m		2018 \$m	
	Decrease of 20%	Decrease of 10%	Decrease of 20%	Decrease of 10%
Profit before tax attributable to shareholders	(864)	(432)	(709)	(355)
Related deferred tax (where applicable)	48	24	21	10
Net effect on profit after tax and shareholders' equity	(816)	(408)	(688)	(345)

A 10 or 20 per cent increase in equity and property values would have an approximately equal and opposite net effect on profit and shareholders' equity to the sensitivities shown above. The impacts at 31 December 2019 are similar to those at 31 December 2018, and reflect the growth in the business.

(iii) Sensitivity to insurance risk

In Asia, adverse persistency experience can impact the IFRS profitability of certain types of business written in the region. This risk is managed at a local business unit level through regular monitoring of experience and the implementation of management actions as necessary. These actions could include product enhancements, increased management focus on premium collection, as well as other customer retention efforts. The potential financial impact of lapses is often mitigated through the specific features of the products, eg surrender charges, or through the availability of premium holiday or partial withdrawal policy features. The reserving basis in Asia is such that a change in lapse assumptions has an immaterial effect on immediate profitability.

Many of the business units in Asia are exposed to mortality and morbidity risk and a provision is made within policyholder liabilities to cover the potential exposure. If all these assumptions were strengthened by 5 per cent then it is estimated that post-tax profit and shareholders' equity would decrease by approximately \$77 million (2018: \$73 million). Weakening these assumptions by 5 per cent would have a similar equal and opposite impact.

C7.3 US insurance operations

Exposure and sensitivity of IFRS basis profit and shareholders' equity to market and other risks

Jackson's reported adjusted IFRS operating profit based on longer-term investment returns is sensitive to market conditions, both with respect to income earned on spread-based products and indirectly with respect to income earned on variable annuity asset management fees. Jackson's main exposures to market risk are to interest rate risk and equity risk.

Jackson is exposed primarily to the following risks:

Risks	Risk of loss
Equity risk	— Related to the incidence of benefits related to guarantees issued in connection with its variable annuity contracts; and — Related to meeting contractual accumulation requirements in fixed index annuity contracts.
Interest rate risk	— Related to meeting guaranteed rates of accumulation on fixed annuity and interest sensitive life products following a sustained fall in interest rates; — Related to increases in the present value of projected benefits related to guarantees issued in connection with its variable annuity contracts following a sustained fall in interest rates especially if in conjunction with a fall in equity markets; — Related to the surrender value guarantee features attached to the Company's fixed annuity and interest sensitive life products and to policyholder withdrawals following a sharp and sustained increase in interest rates; and — The risk of mismatch between the expected duration of certain annuity liabilities and prepayment risk and extension risk inherent in mortgage-backed securities.

A prolonged low interest rate environment may result in a lengthening of maturities of the fixed annuity and interest-sensitive life contract holder liabilities from initial estimates, primarily due to lower policy lapses. As interest rates remain at low levels, Jackson may also have to reinvest the cash it receives as interest or proceeds from investments that have matured or that have

been sold at lower yields, reducing its investment margins. Moreover, borrowers may prepay or redeem the securities in their investment portfolios with greater frequency in order to borrow at lower market rates, which exacerbates this risk. The majority of Jackson's fixed annuities, variable annuity fixed account options and life products were designed with contractual provisions that allow crediting rates to be re-set annually, subject to minimum crediting rate guarantees.

Jackson's derivative programme, which is described in note C3.4(b), is used to manage the economic interest rate risk associated with a broad range of products and equity market risk attaching to its equity-based products. Movements in equity markets, equity volatility, interest rates and credit spreads materially affect the carrying value of derivatives that are used to manage the liabilities to policyholders and backing investment assets. Movements in the carrying value of derivatives combined with the use of US GAAP measurement (as 'grandfathered' under IFRS 4) for the insurance contracts assets and liabilities, which is largely insensitive to current period market movements, mean that the Jackson total profit (ie including short-term fluctuations in investment returns) is sensitive to market movements. In addition to these effects the Jackson shareholders' equity is sensitive to the impact of interest rate and credit spread movements on the value of fixed income securities. Movements in unrealised appreciation on these securities are included as movement in shareholders' equity (ie outside the income statement).

(i) Sensitivity to equity risk

Jackson had variable annuity contracts with guarantees, for which the net amount at risk (NAR) is defined as the amount of guaranteed benefit in excess of current account value, as follows:

31 Dec 2019	Minimum return [†] %	Account value \$m	Net amount at risk \$m	Weighted average attained age Years	Period until expected annuitisation Years
Return of net deposits plus a minimum return					
GMDB	0-6%	150,576	2,477	66.9 years	
GMWB – premium only	0%	2,753	16		
GMWB*	0-5% [‡]	257	14		
GMAB – premium only	0%	37	–		
Highest specified anniversary account value minus withdrawals post-anniversary					
GMDB		12,547	69	67.7 years	
GMWB – highest anniversary only		3,232	51		
GMWB*		698	52		
Combination net deposits plus minimum return, highest specified anniversary account value minus withdrawals post-anniversary					
GMDB	0-6%	8,159	687	70.0 years	
GMIB [†]	0-6%	1,688	616		0.5 years
GMWB*	0-8% [‡]	140,529	7,160		

31 Dec 2018	Minimum return %	Account value \$m	Net amount at risk \$m	Weighted average attained age Years	Period until expected annuitisation Years
Return of net deposits plus a minimum return					
GMDB	0-6%	125,644	5,652	66.5 years	
GMWB – premium only	0%	2,450	80		
GMWB*	0-5% [‡]	251	25		
GMAB – premium only	0%	34	–		
Highest specified anniversary account value minus withdrawals post-anniversary					
GMDB		10,865	1,418	67.1 years	
GMWB – highest anniversary only		2,827	400		
GMWB*		682	113		
Combination net deposits plus minimum return, highest specified anniversary account value minus withdrawals post-anniversary					
GMDB	0-6%	6,947	1,550	69.5 years	
GMIB [†]	0-6%	1,599	825		0.1 years
GMWB*	0-8% [‡]	116,902	21,442		

* Amounts shown for GMWB comprise sums for the 'not for life' portion (where the guaranteed withdrawal base less the account value equals to the net amount at risk (NAR)), and a 'for life' portion (where the NAR has been estimated as the present value of future expected benefit payment remaining after the amount of the 'not for life' guaranteed benefits is zero).

[†] The GMIB guarantees are substantially reinsured.

[‡] Ranges shown based on simple interest. The upper limits of 5 per cent or 8 per cent simple interest are approximately equal to 4.1 per cent and 6 per cent respectively, on a compound interest basis over a typical 10-year bonus period. For example 1 + 10 x 0.05 is similar to 1.04 growing at a compound rate of 4 per cent for a further nine years. The "Combination GMWB" category also includes benefits with a defined increase in the withdrawal percentage under pre-defined non-market conditions.

Account balances of contracts with guarantees were invested in variable separate accounts as follows:

Mutual fund type:	31 Dec 2019 \$m	31 Dec 2018 \$m
Equity	121,520	99,834
Bond	19,341	17,705
Balanced	30,308	25,349
Money market	956	1,049
Total	172,125	143,937

As noted above, Jackson is exposed to equity risk through the options embedded in the fixed index annuity liabilities and guarantees included in certain variable annuity benefits as illustrated above. This risk is managed using an equity hedging programme to minimise the risk of a significant economic impact as a result of increases or decreases in equity market levels. Jackson purchases futures and options that hedge the risks inherent in these products, while also considering the impact of rising and falling guaranteed benefit fees.

Due to the nature of valuation under IFRS of the free-standing derivatives and the variable annuity guarantee features, this hedge, while highly effective on an economic basis, would not automatically offset within the financial statements as the impact of equity market movements resets the free-standing derivatives immediately while the hedged liabilities reset more slowly and fees are recognised prospectively in the period in which they are earned. Jackson's hedging programme is focused on managing the economic risks in the business and protecting statutory solvency in the circumstances of large market movements. The hedging programme does not aim to hedge IFRS accounting results, which can lead to volatility in the IFRS results in a period of significant market movements, as was seen in 2019.

In addition to the exposure explained above, Jackson is also exposed to equity risk from its holding of equity securities, partnerships in investment pools and other financial derivatives.

The estimated sensitivity of Jackson's profit and shareholders' equity to immediate increases and decreases in equity markets is shown below. The sensitivities are shown net of related changes in DAC amortisation.

Sensitivity to equity risk - Jackson	2019 \$m				2018 \$m			
	Decrease		Increase		Decrease		Increase	
	of 20%	of 10%	of 20%	of 10%	of 20%	of 10%	of 20%	of 10%
Profit before tax (net of related changes in amortisation of DAC)	964	256	1,848	770	1,347	544	74	(159)
Related deferred tax	(202)	(54)	(388)	(162)	(282)	(115)	(15)	33
Net effect on profit after tax and shareholders' equity*	762	202	1,460	608	1,065	429	59	(126)

* The table above has been prepared to exclude the impact of the instantaneous equity movements on the separate account fees. The sensitivity movements shown include those relating to the fixed index annuity and the reinsurance of GMIB guarantees.

The above sensitivities assume instantaneous market movements while the actual impact on financial results would vary contingent upon the volume of new product sales and lapses, changes to the derivative portfolio, correlation of market returns and various other factors including volatility, interest rates and elapsed time.

The directional movements in the sensitivities reflect the hedging programme in place at 31 December 2019 and 2018 respectively. The impacts shown under a decrease in equity markets reflect the mismatch discussed in note B1.2(ii)(a), with the gains on equity derivatives exceeding the increase in IFRS liabilities given the measurement basis applied. Following the equity market gains during 2019, the equity call options held at 31 December 2019 act to limit losses on equity derivatives under equity market increases. If equity markets therefore increase the main effect is a reduction in liabilities as guarantees move further out-of-the-money. The sensitivities above reflect the actual hedging portfolio at 31 December 2019 and the nature of Jackson's dynamic hedging programme means that the portfolio, and hence the results of these sensitivities, will change on an ongoing basis.

(ii) Sensitivity to interest rate risk

Except in the circumstances of interest rate scenarios where the guarantee rates included in contract terms are higher than crediting rates that can be supported from assets held to cover liabilities, the IFRS measurement basis of fixed annuity liabilities of Jackson's products is not generally sensitive to interest rate risk. This position derives from the nature of the products and the US GAAP basis of measurement. The GMWB features attached to variable annuity business (other than 'for life' components) are accounted for under US GAAP at fair-value and, therefore, will be sensitive to changes in interest rates, as discount rates and fund earned rates will be updated on an ongoing basis.

Debt securities and related derivatives are marked to fair value. Value movements on derivatives, again net of related changes to amortisation of DAC and deferred tax, are recorded within the income statement. Fair value movements on debt securities, net of related changes to amortisation of DAC and deferred tax, are recorded within other comprehensive income. The estimated sensitivity of these items and policyholder liabilities to a 1 per cent and 2 per cent decrease (with no floor of zero applied) and increase in interest rates is as follows:

	2019 \$m				2018 \$m			
	Decrease		Increase		Decrease		Increase	
	of 2%	of 1%	of 2%	of 1%	of 2%	of 1%	of 2%	of 1%
Profit or loss:								
Profit before tax (net of related changes in amortisation of DAC)	(6,238)	(2,815)	3,914	2,141	(4,502)	(2,188)	2,815	1,530
Related deferred tax	1,310	591	(822)	(450)	945	460	(591)	(321)
Net effect on profit after tax	(4,928)	(2,224)	3,092	1,691	(3,557)	(1,728)	2,224	1,209
Other comprehensive income:								
Direct effect on carrying value of debt securities (net of related changes in amortisation of DAC)	5,342	2,840	(5,342)	(2,840)	5,265	2,988	(5,265)	(2,988)
Related deferred tax	(1,122)	(596)	1,122	596	(1,105)	(628)	1,105	628
Net effect on other comprehensive income	4,220	2,244	(4,220)	(2,244)	4,160	2,360	(4,160)	(2,360)
Total net effect on shareholders' equity	(708)	20	(1,128)	(553)	603	632	(1,936)	(1,151)

These sensitivities above are shown for interest rates in isolation only and do not include other movements in credit risk that may affect credit spreads and valuations of debt securities. Similar to the sensitivity to equity risk, the sensitivity movements provided in the table above are at a point in time and reflect the hedging programme in place on the balance sheet date, while the actual impact on financial results would vary contingent upon a number of factors. The increase in the magnitude of the sensitivities at 31 December 2019 mainly reflects the lower interest rates at 31 December 2019 and the consequential reduction on assumed future separate account return, that is based on risk-free rates under grandfathered US GAAP. This has the effect of the IFRS liability reflecting a greater potential for policyholder payments under the variable annuity guarantees as interest rates fall. Jackson's hedging programme is focused on managing the economic risks in the business and protecting statutory solvency under large market movements, and does not aim to hedge the IFRS accounting results.

(iii) Sensitivity to insurance risk

Jackson is sensitive to mortality risk, lapse risk and other types of policyholder behaviour, such as the utilisation of its GMWB product features. Jackson's persistency assumptions reflect a combination of recent experience for each relevant line of business and expert judgement, especially where a lack of relevant and credible experience data exists. These assumptions vary by relevant factors, such as product, policy duration, attained age and for variable annuity lapse assumptions, the extent to which guaranteed benefits are 'in the money' relative to policy account values. Changes in these assumptions, which are assessed on an annual basis after considering recent experience, could have a material impact on policyholder liabilities and therefore on profit before tax. Any changes in these assumptions are recorded within short-term fluctuations in investment returns in the Group's supplementary analysis of profit (see note B1.2).

In addition, in the absence of hedging, equity and interest rate movements can both cause a loss directly or an increased future sensitivity to policyholder behaviour. Jackson has an extensive derivative programme that seeks to manage the exposure to such altered equity markets and interest rates.

C7.4 Asset management and other operations

(i) Asset management

The profit for the year of asset management operations are sensitive to the level of assets under management, as this significantly affects the value of management fees earned by the business in the current and future years. The Group's asset management operations do not hold significant financial investments.

(ii) Other operations

At 31 December 2019, the financial investments of the other operations are principally short-term treasury bills held by the Group's treasury function for liquidity purposes and so there is limited sensitivity to credit risk and interest rate movements.

C8 Tax assets and liabilities

Deferred tax

The statement of financial position contains the following deferred tax assets and liabilities in relation to:

	2019 \$m					Balance at 31 Dec
	Balance at 1 Jan	Demerger of UK and Europe operations	Movement in income statement	Movement through other comprehensive income and equity	Other movements including foreign currency movements	
Deferred tax assets						
Unrealised losses or gains on investments	144	–	(16)	–	(128)	–
Balances relating to investment and insurance contracts	1	–	60	–	(29)	32
Short-term temporary differences	2,979	(146)	1,069	(15)	1	3,888
Capital allowances	19	(14)	(3)	–	(1)	1
Unused tax losses	162	–	8	–	(16)	154
Total	3,305	(160)	1,118	(15)	(173)	4,075
Deferred tax liabilities						
Unrealised losses or gains on investments	(1,104)	1,053	(231)	(713)	118	(877)
Balances relating to investment and insurance contracts	(1,276)	–	(246)	–	15	(1,507)
Short-term temporary differences	(2,671)	233	(414)	19	(14)	(2,847)
Capital allowances	(71)	65	–	–	–	(6)
Total	(5,122)	1,351	(891)	(694)	119	(5,237)

C9 Defined benefit pension schemes

The Group has historically operated a number of defined benefit pension schemes in the UK, with all pension surplus and deficit attributable to subsidiaries of M&G plc except for 30 per cent of the surplus attaching to the Prudential Staff Pension Scheme (PSPS), which was allocated to Prudential plc. In preparation for the demerger of M&G plc, at 30 June 2019, the 30 per cent of surplus attaching to PSPS was formally reallocated to M&G Prudential Services Limited. All UK schemes left the Group upon the demerger of M&G plc and Prudential plc will incur no further costs in respect of these schemes. Outside of the UK, there are two small defined benefit schemes in Taiwan which have negligible deficits.

C10 Share capital, share premium and own shares

	2019			2018		
	Number of ordinary shares	Share capital \$m	Share premium \$m	Number of ordinary shares	Share capital \$m	Share premium \$m
Issued shares of 5p each fully paid						
Balance at 1 January	2,593,044,409	166	2,502	2,587,175,445	175	2,635
Shares issued under share-based schemes	8,115,540	–	22	5,868,964	1	22
Impact of change in presentation currency	–	6	101	–	(10)	(155)
Balance at 31 December	2,601,159,949	172	2,625	2,593,044,409	166	2,502

Options outstanding under save as you earn schemes to subscribe for shares at each year end shown below are as follows:

	Number of shares to subscribe for	Share price range		Exercisable by year
		from	to	
31 Dec 2019	3,805,447	1,104p	1,455p	2025
31 Dec 2018	4,885,804	901p	1,455p	2024

Transactions by Prudential plc and its subsidiaries in Prudential plc shares

The Group buys and sells Prudential plc shares ('own shares') either in relation to its employee share schemes or up until the demerger of its UK and Europe operations via transactions undertaken by authorised investment funds that the Group is deemed to control. The cost of own shares of \$183 million at 31 December 2019 (31 December 2018: \$217 million) is deducted from retained earnings. The Company has established trusts to facilitate the delivery of shares under employee incentive plans. At 31 December 2019, 8.4 million (31 December 2018: 9.6 million) Prudential plc shares with a market value of \$161 million (31 December 2018: \$172 million) were held in such trusts, all of which are for employee incentive plans. The maximum number of shares held during the year was 14.1 million which was in March 2019.

Within the trusts, shares are notionally allocated by business unit reflecting the employees to which the awards were made. On demerger, shares allocated to M&G plc were transferred to a separate trust established by M&G plc.

The Company purchased the following number of shares in respect of employee incentive plans. The shares purchased each month are as follows:

	Number of shares	2019			Cost* \$	Number of shares	2018			Cost* \$
		share price		High £			share price		High £	
		Low £	High £				Low £	High £		
January	75,165	14.25	14.29	1,384,926	51,555	19.18	19.40	1,378,409		
February	71,044	15.00	15.18	1,390,865	55,765	17.91	18.10	1,402,089		
March	68,497	15.20	16.32	1,385,182	55,623	18.25	18.54	1,432,155		
April	2,638,429	15.65	16.73	54,052,710	1,664,334	16.67	17.95	40,997,710		
May	73,417	16.35	16.45	1,550,109	63,334	18.91	19.38	1,636,433		
June	217,800	16.20	16.36	4,484,773	181,995	18.21	18.65	4,432,511		
July	60,514	17.47	17.71	1,321,427	55,888	17.68	17.86	1,308,608		
August	72,671	14.86	15.21	1,318,593	60,384	18.04	18.10	1,404,285		
September	73,284	14.14	14.76	1,318,767	82,612	16.95	16.98	1,829,814		
October	178,359	13.78	14.24	3,148,811	148,209	15.62	16.84	3,223,238		
November	75,904	13.38	13.85	1,309,146	67,162	15.95	15.96	1,382,514		
December	68,573	13.07	13.13	1,178,206	73,744	13.99	14.30	1,323,949		
Total	3,673,657			73,843,515	2,560,605			61,751,715		

* The cost in US dollars for the shares purchased each month shown has been calculated from the share prices in pounds sterling using the monthly average exchange rate.

Prior to the demerger of UK and Europe operations in October 2019, the Group consolidated a number of authorised investment funds of M&G plc that hold shares in Prudential plc. In the prior year, at 31 December 2018, the total number of shares held by these funds was 3.0 million and the cost of acquiring these shares of \$25 million was included in the cost of own shares. The market value of these shares as at 31 December 2018 was \$53 million. These funds were deconsolidated upon the demerger.

All share transactions were made on an exchange other than the Stock Exchange of Hong Kong.

Other than set out above, the Group did not purchase, sell or redeem any Prudential plc listed securities during 2019 or 2018.

D OTHER INFORMATION

D1 Gain (loss) on disposal of business and corporate transactions

D1.1 Gain (loss) on disposal of business

	2019 \$m	2018 \$m
Gain on disposals ^{note (i)}	265	–
Other transactions ^{note (ii)}	(407)	(107)
Total gain (loss) on disposal of business from continuing operations	(142)	(107)

Notes

- (i) In 2019, the \$265 million gain on disposals principally relates to profits arising from a reduction in the Group's stake (from 26 per cent to 22 per cent) in its associate in India, ICICI Prudential Life Insurance Company, and the disposal of Prudential Vietnam Finance Company Limited, a wholly owned subsidiary that provides consumer finance.
- (ii) In 2019, the \$(407) million other transactions reflects costs related to the demerger of M&G plc from Prudential plc. These include the following amounts:
- \$(78) million transaction related costs, principally fees to advisors;
 - \$(182) million being the fee paid to the holders of two subordinated debt instruments as discussed in note C6.1(vi); and
 - \$(147) million for one-off costs arising from the separation of the M&G plc business from Prudential plc.

In 2018, the \$(107) million other transactions primarily related to exiting the NPH broker-dealer business in the US and costs related to the preparation for the demerger of M&G plc.

D1.2 Other corporate transactions

Acquisition of Thanachart Fund Management Co., Ltd. in Thailand

On 27 December 2019, the Group completed its acquisition of 50.1 per cent of Thanachart Fund Management Co., Ltd. (TFUND) from Thanachart Bank Public Company Ltd. (TBANK) and Government Savings Bank, with TBANK holding the remaining 49.9 per cent stake of TFUND. The acquisition complements the Group's purchase of 65 per cent of TMB Asset Management, now TMBAM Eastspring, in September 2018.

The terms of the sale agreement include an option for the Group to increase its ownership to 100 per cent in the future. The Group has recognised, in line with IFRS, a financial liability and a reduction in shareholders' equity of \$130 million as of the acquisition date for the option, being the discounted expected consideration payable for the remaining 49.9 per cent.

The fair value of the acquired assets, assumed liabilities and resulting goodwill are shown in the table below:

	\$m
Assets	
Other assets	28
Cash and cash equivalents	2
Total assets	30
Other liabilities	(7)
Non-controlling interests*	(141)
Net assets acquired and liabilities assumed	(118)
Goodwill arising on acquisition*	260
Purchase consideration	142

* The goodwill on acquisition of \$260 million is mainly attributable to the expected benefits from new customers and synergies. Refer to note C5.1 for changes to the carrying amount of goodwill during the year. The Group has chosen to apply the full goodwill method under IFRS 3, 'Business Combinations' for this acquisition, with non-controlling interests being measured at fair value on the acquisition date.

D2 Discontinued UK and Europe operations

On 21 October 2019, the Group completed the demerger of its UK and Europe operations (M&G plc) from the Group, resulting in two separately listed companies. The Group's UK and Europe operations have been reclassified as discontinued operations in these consolidated financial statements in accordance with IFRS 5 'Non-current assets held for sale and discontinued operations'.

The results and cash flows for the discontinued UK and Europe operations presented in the consolidated financial statements for the period of ownership up to the demerger in October 2019 are analysed below.

Income statement

	2019 \$m	2018 \$m
Earned premiums, net of reinsurance	10,920	(101)
Investment return and other income ^{note (1)}	22,292	(2,386)
Total revenue, net of reinsurance	33,212	(2,487)
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	(26,975)	6,645
Acquisition costs and other expenditure	(4,143)	(3,296)
Total charges, net of reinsurance	(31,118)	3,349
Discontinued UK and Europe operations' profit before tax	2,094	862
Re-measurement of the UK and Europe operations on demerger ^{note (2)}	188	–
Cumulative exchange loss recycled from other comprehensive income	(2,668)	–
(Loss) profit before tax	(386)	862
Tax (charge) credit ^{note (3)}	(775)	280
(Loss) profit for the year from discontinued operations	(1,161)	1,142

Notes

- (1) Includes share of profits from joint ventures and associates, net of related tax.
- (2) The re-measurement of the discontinued UK and Europe operations on demerger reflects the difference between the fair value of the UK and Europe operations and its net assets at the date of the demerger.
- (3) The tax (charge) credit wholly relates to the tax on the ordinary profits of the discontinued UK and Europe operations.

Other comprehensive income

	2019 \$m	2018 \$m
Cumulative exchange loss recycled through profit or loss	2,668	–
Other items, net of related tax	203	(605)
Other comprehensive income for the year from discontinued operations, net of related tax	2,871	(605)

The profit and other comprehensive income for the period from the discontinued UK and Europe operations were wholly attributable to the equity holders of the Company.

Cash flows

	2019 \$m	2018 \$m
Cash flows from operating activities	2,375	5
Cash flows from investing activities	(454)	(478)
Cash flows from financing activities*	–	(137)
Cash and cash equivalents divested on demerger	(7,611)	–
Net cash flows in the year	(5,690)	(610)
Net cash flows between discontinued and continuing operations*	(436)	(842)
Cash and cash equivalents at beginning of year	6,048	7,857
Effect of exchange rate changes on cash and cash equivalents	78	(357)
Cash and cash equivalents on the consolidated statement of financial position at end of year	–	6,048

* The net cash flows between discontinued and continuing operations represents the net cash paid for dividend and other items from discontinued operations to continuing operations. In 2019, the net cash flows of \$(436) million primarily include pre-demerger dividend of \$(3,841) million, other dividends of \$(684) million offset by payment for the transfer of debt to M&G plc from Prudential plc prior to the demerger of \$4,161 million.

D3 Contingencies and related obligations

Litigation and regulatory matters

The Group is involved in various litigation and regulatory proceedings. These may from time to time include class actions involving Jackson. While the outcome of such litigation and regulatory issues cannot be predicted with certainty, the Company believes that their ultimate outcome will not have a material adverse effect on the Group's financial condition, results of operations or cash flows.

D4 Post balance sheet events

Dividends

The 2019 second interim ordinary dividend approved by the Board of Directors after 31 December 2019 is as described in note B6.

Coronavirus outbreak

The novel coronavirus outbreak, with thousands of cases reported in 2020 to date and the virus spreading to countries across Asia and the world, has disrupted the activity in the markets in which the Group operates, in particular Hong Kong and mainland China, and adversely impacted the economic conditions in the year to date. Given these conditions, lower levels of new business activity in affected markets are to be expected. Further details on the Group capital position are set out in note I(i) of the Additional unaudited financial information.

The Group continues to monitor closely the development of the coronavirus outbreak and its impact on market conditions. If current economic conditions persist, management could take additional actions to mitigate the impact. These actions include, but are not limited to, rebalancing investment portfolios, further market risk hedging, increased use of reinsurance, repricing of in-force benefits, changes to new business pricing and the mix of new business being sold.

It is not practicable to quantify the potential financial effect of the outbreak on the Group at this stage.

I Additional unaudited financial information

I(i) Group capital position

Following the demerger of M&G plc from Prudential plc, the Hong Kong Insurance Authority (IA) has assumed the role of the group-wide supervisor for the Prudential Group with the Group no longer subject to Solvency II capital requirements. Ultimately, Prudential plc will become subject to the Group Wide Supervision (GWS) framework which is currently under development by the Hong Kong IA for the industry and is expected to be finalised in the second half of 2020. Until Hong Kong's GWS framework comes into force, Prudential will apply the local capital summation method (LCSM) that has been agreed with the Hong Kong IA to determine group regulatory capital requirements (both minimum and prescribed levels). Further detail on the LCSM is included in the basis of preparation section below.

For regulated insurance entities, the available and required capital included in the LCSM measure for Hong Kong IA Group regulatory purposes are based on the local solvency regime applicable in each jurisdiction. At 31 December 2019 the Prudential Group's total surplus of available capital over the regulatory Group Minimum Capital Requirement (GMCR), calculated using this LCSM was \$23.6 billion, before allowing for the payment of the 2019 second interim ordinary dividend.

The Group holds material participating business in Hong Kong, Singapore and Malaysia. If the available capital and minimum capital requirement attributed to this policyholder business are excluded, then the Prudential Group shareholder LCSM surplus of available capital over the regulatory GMCR at 31 December 2019 was \$9.5 billion, before allowing for the payment of the 2019 second interim ordinary dividend.

Estimated Group LCSM capital position based on Group Minimum Capital Requirement (GMCR)

	31 Dec 2019			31 Dec 2018*		
	Total	Less policyholder	Shareholder	Total	Less policyholder	Shareholder
Available capital (\$bn)	33.1	(19.1)	14.0	27.0	(13.5)	13.5
Group Minimum Capital Requirement (\$bn)	9.5	(5.0)	4.5	7.6	(3.8)	3.8
LCSM surplus (over GMCR) (\$bn)	23.6	(14.1)	9.5	19.4	(9.7)	9.7
LCSM ratio (over GMCR) (%)	348%		309%	355%		356%

* Excludes M&G plc and includes \$3.7 billion of subordinated debt issued by Prudential plc that was transferred to M&G plc on 18 October 2019.

The shareholder LCSM capital position by segment is presented below at 31 December 2019 and 31 December 2018 for comparison:

Estimated Group shareholder LCSM capital position (based on GMCR)

31 Dec 2019 (\$bn)	Total		Shareholder			
	Asia	Less policyholder	Asia	US	Unallocated to a segment	Group total
Available capital	26.8	(19.1)	7.7	5.3	1.0	14.0
Group Minimum Capital Requirement	8.0	(5.0)	3.0	1.5	-	4.5
LCSM surplus (over GMCR)	18.8	(14.1)	4.7	3.8	1.0	9.5

31 Dec 2018* (\$bn)	Total		Shareholder			
	Asia	Less policyholder	Asia	US	Unallocated to a segment	Group total
Available capital	19.6	(13.5)	6.1	5.7	1.7	13.5
Group Minimum Capital Requirement	6.3	(3.8)	2.5	1.3	-	3.8
LCSM surplus (over GMCR)	13.3	(9.7)	3.6	4.4	1.7	9.7

* Excludes M&G plc and includes \$3.7 billion of subordinated debt issued by Prudential plc that was transferred to M&G plc on 18 October 2019.

The 31 December 2019 Jackson local statutory results reflect early adoption of the NAIC regulatory framework reforms at the valuation date as agreed with the Department of Insurance Financial Services (DIFS) and Jackson's decision not to renew its long-standing permitted practice with the DIFS which allowed certain derivative instruments, taken out to protect Jackson against declines in long-term interest rates, to be included at book value in the local statutory returns. At 31 December 2019, these derivatives are held at fair value.

Sensitivity analysis

The estimated sensitivity of the Group shareholder LCSM capital position (based on GMCR) to significant changes in market conditions is as follows:

Impact of market sensitivities	31 Dec 2019	
	LCSM surplus (\$bn)	LCSM ratio (%)
Base position	9.5	309%
<i>Impact of:</i>		
20% instantaneous fall in equity markets	1.5	(9)%
40% fall in equity markets ^{note (1)}	(0.2)	(39)%
50 basis points reduction in interest rates	(0.2)	(17)%
100 basis points increase in interest rates	(1.3)	(19)%
100 basis points increase in credit spreads ^{note (2)}	(1.6)	(36)%

Notes

- (1) Where hedges are dynamic, rebalancing is allowed for by assuming an instantaneous 20 per cent fall followed by a further 20 per cent fall over a four-week period.
- (2) US RBC solvency position included using a stress of 10 times expected credit defaults.

The sensitivity results above assume instantaneous market movements as at 31 December 2019, apart from the -40% equity sensitivity where for Jackson an instantaneous 20% market fall is assumed to be followed by a further market fall of 20% over a four-week period with dynamic hedges assumed to be rebalanced over the period. Aside from this assumed dynamic hedge rebalancing for Jackson in the -40% equity sensitivity, the sensitivity results only allow for limited management actions such as changes to future policyholder bonuses. If such economic conditions persisted, the financial impacts may differ to the instantaneous impacts shown above. In this case management could also take additional actions to help mitigate the impact of these stresses. These actions include, but are not limited to, rebalancing investment portfolios, further market risk hedging, increased use of reinsurance, repricing of in-force benefits, changes to new business pricing and the mix of new business being sold.

Between 31 December 2019 and the end of February 2020, government bond yields and equity markets fell significantly in many countries. For example, US 10-year treasury yields fell by around 80 basis points and the US S&P 500 equity index fell by around 9% over the 2-month period. Based on economic conditions at the end of February 2020, the Group shareholder LCSM capital ratio (over GMCR) is estimated to be in the range of 270% - 280%, compared to 309% at 31 December 2019. This estimated capital ratio at the end of February is slightly higher than implied by the sensitivities above, mainly reflecting the benefit of management actions taken in the period which are not allowed for in the sensitivities.

Analysis of movement in Group capital position

A summary of the estimated movement in the Group shareholder LCSM surplus (based on GMCR) from \$9.7 billion at 31 December 2018 to \$9.5 billion at 31 December 2019 is set out in the table below.

	2019 (\$bn)
Balance at beginning of year	9.7
Operating:	
Operating capital generation from the in-force business	2.5
Investment in new business	(0.6)
Operating capital generation	1.9
Non-operating and other capital movements:	
Non-operating experience (including market movements)	(0.6)
Adoption of NAIC regulatory reforms in the US	0.1
Corporate activities (excluding demerger items)	(0.8)
Demerger costs	(0.4)
Subordinated debt redemption	(0.5)
Demerger related impacts	1.0
M&G plc remittances	0.7
External dividends	(1.6)
Net dividend impact	(0.9)
Net movement in LCSM surplus	(0.2)
Balance at end of year	9.5

The estimated movement in the Group shareholder LCSM surplus over 2019 is driven by:

- *Operating capital generation of \$1.9 billion:* generated by expected return on in-force business net of strain on new business written in 2019. It includes the impact from the release of incremental reserves associated with the John Hancock acquisition in the US (\$0.4 billion) and interest paid prior to demerger on subordinated debt transferred to M&G plc (\$0.2 billion);
- *Non-operating experience of \$(0.6) billion:* this includes the negative impact of higher equity markets on Jackson's derivatives net of reserve movements partially offset by the positive impacts of market and exchange rate movements on Asia surplus over the year;
- *Corporate activities (excluding demerger items) of \$(0.8) billion:* this is the effect on LCSM surplus of corporate transactions in the period, principally arising from the extension of the UOB bancassurance distribution deal;
- *Demerger costs of \$(0.4) billion:* this includes transaction related costs and other one-off costs arising from the demerger;
- *Subordinated debt redemption of \$(0.5) billion:* a reduction in surplus from the impact of debt redeemed during 2019;
- *Demerger related impacts of \$1.0 billion:* includes \$3.8 billion of pre-demerger dividend paid by M&G plc, \$1.0 billion of restructuring impacts prior to demerger and \$0.4 billion from debt raised by Prudential plc on behalf of M&G plc, partially offset by \$(4.2) billion from the transfer of subordinated debt to M&G plc prior to demerger; and
- *Net dividend impact of \$(0.9) billion:* this includes external dividends of \$(1.6) billion paid during 2019 largely based on the Group prior to demerger net of regular remittances paid by M&G plc during 2019 prior to the demerger of \$0.7 billion.

Reconciliation of Group shareholder LCSM surplus to EEV free surplus (excluding intangibles)

31 Dec 2019 (\$bn)	Asia	US	Unallocated to a segment	Group total
Estimated Group shareholder LCSM surplus (over GMCR)	4.7	3.8	1.0	9.5
Increase required capital for EEV free surplus ^{note (i)}	(0.6)	(2.2)	-	(2.8)
Adjust surplus assets and core structural borrowings to market value ^{note (ii)}	0.3	0.2	(0.2)	0.3
Add back inadmissible assets ^{note (iii)}	0.1	0.1	-	0.2
Deductions applied to EEV free surplus ^{note (iv)}	(0.9)	-	-	(0.9)
Other	-	(0.1)	0.4	0.3
EEV free surplus excluding intangibles*	3.6	1.8	1.2	6.6

*As per the "Free surplus excluding distribution rights and other intangibles" from note 11 of the Group's EEV basis results.

Notes

- (i) Required Capital under EEV is set at least equal to local statutory notification requirements for Asia (with China JV following the approach for embedded value reporting issued by the China Association of Actuaries (CAA) reflecting the C-ROSS regime) and at 250 per cent of the risk-based capital (RBC) required by the NAIC at the Company Action Level (CAL). This is higher than the solo legal entity statutory minimum capital requirements that are included in the LCSM surplus (over GMCR).
- (ii) The EEV Principles require surplus assets to be included at fair value and central core senior debt held at market value. Within LCSM surplus, some local regulatory regimes value certain assets at cost and core structural borrowings are held at amortised cost.
- (iii) LCSM restricts the valuation of certain sundry non-intangible assets. In most cases these assets are considered fully recognisable in free surplus. As an exception to this, both LCSM surplus and EEV free surplus restrict the deferred tax asset held by Jackson to the level allowed to be admitted by the local regulator in local statutory available capital.
- (iv) Deductions applied to EEV free surplus primarily include the impact of applying the embedded value reporting approach issued by the CAA within EEV free surplus as compared to the C-ROSS surplus reported for local regulatory purposes. The \$(0.9) billion predominantly arises from the requirement under the CAA embedded value methodology to establish a deferred profit liability within EEV net worth.

Reconciliation of Group IFRS shareholders' equity to shareholder LCSM available capital position

	31 Dec 2019
	(\$bn)
Group IFRS shareholders' equity	19.5
Remove DAC, goodwill and intangibles	(18.2)
Add subordinated debt at IFRS book value	4.6
Valuation differences	8.6
Other	(0.5)
Estimated Group shareholder LCSM available capital	14.0

The key items of the reconciliation as at 31 December 2019 are:

- \$(18.2) billion due to the removal of DAC, goodwill and other intangibles from the IFRS statement of financial position;
- \$4.6 billion due to the addition of subordinated debt, which is treated as available capital under LCSM but as a liability under IFRS; and
- \$8.6 billion due to differences on the basis of valuing assets and liabilities between IFRS and local statutory valuation rules, including reductions for inadmissible assets. The most significant difference arises in Jackson where local statutory reserves are reduced by an expense allowance linked to surrender charges. IFRS makes no such allowance but instead defers acquisition costs on the balance sheet as a separate asset (which is not recognised on the statutory balance sheet).

Basis of preparation

In advance of the GWS framework coming into force, Prudential applies the local capital summation method (LCSM) that has been agreed with the Hong Kong IA to determine group regulatory capital requirements (both minimum and prescribed levels). The summation of local statutory capital requirements across the Group is used to determine group regulatory capital requirements, with no allowance for diversification between business operations. The Group available capital is determined by the summation of available capital across local solvency regimes for regulated entities and IFRS net assets (with adjustments described below) for non-regulated entities. The Hong Kong IA has yet to make any final decisions regarding the GWS framework for the industry and it continues to consider and consult on the proposed legislation and related guidelines. The results above should not therefore be interpreted as representing the results or requirements under the industry-wide GWS framework and are not intended to provide a forecast of the eventual position.

In determining the LCSM available capital and required capital the following principles have been applied:

- For regulated insurance entities, available and required capital are based on the local solvency regime applicable in each jurisdiction, with minimum required capital set at the solo legal entity statutory minimum capital requirements. The treatment of participating funds is consistent with the local basis;
- For the US insurance entities, available and required capital are based on the local US RBC framework set by the NAIC, with minimum required capital set at 100 per cent of the CAL RBC;
- For asset management operations and other regulated entities, the shareholder capital position is derived based on the sectoral basis applicable in each jurisdiction, with minimum required capital based on the solo legal entity statutory minimum capital requirement;
- For non-regulated entities, the available capital is based on IFRS net assets after deducting intangible assets. No required capital is held in respect of unregulated entities;
- Investments in subsidiaries, joint ventures and associates (including, if any, loans that are recognised as capital on the receiving entity's balance sheet) are eliminated from the relevant holding company to prevent the double counting of available capital; and
- The Hong Kong IA has agreed that specific bonds (being those subordinated debt instruments held by Prudential plc at the date of demerger) can be included as part of the Group's capital resources for the purposes of satisfying group minimum and prescribed capital requirements. Senior debt instruments held by Prudential plc have not been included as part of the Group capital resources and are treated as a liability in the LCSM results presented above (this is equivalent to a 15 per cent reduction in the Group shareholder LCSM coverage ratio (over GMCR)). Grandfathering provisions under the GWS framework remain subject to further consultation and the Hong Kong legislative process in due course.

I(ii) Funds under management

For Prudential's asset management businesses, funds managed on behalf of third parties are not recorded on the statement of financial position. They are, however, a driver of profitability. Prudential therefore analyses the movement in the funds under management each period, focusing on those which are external to the Group and those primarily held by the Group's insurance businesses. The table below analyses, by segment, the funds of the Group held in the statement of financial position and the external funds that are managed by Prudential's asset management businesses.

	31 Dec 2019 \$bn	31 Dec 2018* \$bn
Asia operations:		
Internal funds	141.9	112.5
Eastspring Investments external funds (as analysed in note I(v))	124.7	77.8
Other [†]	–	22.2
	266.6	212.5
US operations – internal funds	273.4	237.0
Other operations	3.9	5.8
Total Group funds under management - continuing operations	543.9	455.3

* The 2018 comparatives have been adjusted from the previously published amounts to exclude the discontinued UK and Europe operations. Additionally, the comparatives have been adjusted to include cash and cash equivalents and to exclude assets held that are attributable to external unit holders of consolidated collective investment schemes to align to the current year's presentation.

[†] Other represents funds managed by Eastspring Investments on behalf of M&G plc, that were categorised as the internal funds of the UK and Europe operations prior to the demerger of M&G plc. Following the demerger, these funds have been reclassified to external funds under management of Eastspring Investments.

Note

Total Group funds under management from continuing operations comprise:

	31 Dec 2019 \$bn	31 Dec 2018 \$bn
Total investments and cash and cash equivalents held by the continuing operations on the consolidated statement of financial position	412.6	349.6
External and M&G plc funds of Eastspring Investments	124.7	100.0
Internally managed funds held in joint ventures and associate, excluding assets attributable to external unit holders of the consolidated collective investment schemes and other adjustments	6.6	5.7
Total Group funds under management from continuing operations	543.9	455.3

I(iii) Holding company cash flow

The holding company cash flow describes the movement in the cash and short-term investments of the centrally managed group holding companies and differs from the IFRS cash flow statement, which includes all cash flows in the year including those relating to both policyholder and shareholder funds. The holding company cash flow is therefore a more meaningful indication of the Group's central liquidity.

During both 2019 and 2018 the cash and short-term investments of the central holding companies were managed in sterling, in line with the management of the Group's external dividends. Following the change to the Group's presentational currency, the holding company cash flow statement below is shown in US dollars and prior period amounts have been restated accordingly. Cash movements in the year have been converted from sterling into US dollars by using the month-end sterling to US dollar exchange rate for the month in which the transaction occurred. Cash balances at the start and end of the year have been translated from sterling to US dollars using the spot rates at 1 January and 31 December respectively. As an exception to the above, external dividends paid for both 2019 and 2018 have been translated at the exchange rate relevant to the day they were paid to ensure consistency with the financial statements.

At 31 December 2019, the Group changed its basis of managing central cash-holdings from sterling to US dollars to better reflect the inflows from the Group's operations post the demerger of M&G plc and its decision to declare dividends in US dollars from 2020. Therefore, in future reporting the holding company cash flow will be prepared directly in US dollars.

	2019 \$m	AER 2018 \$m
Net cash remitted by business units^{note (a)}:		
From continuing operations		
Asia ^{note (b)}	950	916
US ^{note (b)}	509	452
Other operations	6	49
Total continuing operations	1,465	1,417
From discontinued UK and Europe operations	684	842
Net cash remittances by business units	2,149	2,259
Net interest paid ^{note (c)}	(527)	(488)
Tax received	265	190
Corporate activities	(260)	(274)
Total central outflows	(522)	(572)
Holding company cash flow before dividends and other movements	1,627	1,687
Dividends paid	(1,634)	(1,662)
Operating holding company cash flow after dividends but before other movements	(7)	25
Other movements		
Transactions to effect the demerger, including debt substitution ^{note(d)}	(146)	2,071
Demerger costs	(424)	(29)
Redemption of subordinated debt for continuing operations	(504)	(553)
Early settlement of UK-inflation-linked derivative liability	(587)	–
Other corporate activities relating to continuing operations ^{note(e)}	(338)	(336)
Total other movements	(1,999)	1,153
Total holding company cash flow	(2,006)	1,178
Cash and short-term investments at beginning of year	4,121	3,063
Foreign exchange movements	92	(120)
Cash and short-term investments at end of year	2,207	4,121

Notes

- (a) Net cash remittances comprise dividends and other transfers from business units that are reflective of emerging earnings and capital generation.
- (b) Significant cash remittances from business units were hedged into sterling using forward contracts during 2018 and 2019 and these contracts determine the amount of sterling recorded in the holding company cash flow for the relevant remittances. The implicit rates may therefore differ from that applied to present the holding company cash flow in US dollars. If local currency remittances in Asia had been translated directly into US dollars using the relevant month-end spot rate then the growth rate in Asia remittances year on year would have been 8 per cent (compared to 4 per cent shown in the table above). The dividend paid by Jackson in the US in US dollars in 2019 was \$525 million (2018: \$450 million).
- (c) The net interest paid in 2019 includes amounts on debt substituted to M&G plc shortly prior to its demerger of \$231 million.
- (d) Transactions to effect the demerger includes the transfer of subsidiaries and settlement of intercompany loans totalling \$(193) million issuance of substitutable debt for cash of \$367 million, receipt of the pre-demerger dividend of \$3,841 million, and the substitution of M&G plc as issuer of sub-ordinated debt in place of Prudential plc (as discussed further in note C6 of the IFRS financial statements), which reduced Cash and short-term investments by \$(4,161) million.
- (e) Other corporate activities relating to continuing operations primarily relates to the first instalment payable following the renewal of bancassurance arrangement with UOB of \$253 million, ongoing centrally funded payments of bancassurance distribution rights and other items.

(iv) Analysis of adjusted IFRS operating profit based on longer-term investment returns by driver from long-term insurance businesses

This schedule classifies the Group's adjusted IFRS operating profit based on longer-term investment returns (adjusted operating profit) from continuing long-term insurance businesses into the underlying drivers using the following categories:

- **Spread income** represents the difference between net investment income and amounts credited to certain policyholder accounts. It excludes the operating investment return on shareholder net assets, which has been separately disclosed as expected return on shareholder assets.
- **Fee income** represents profit driven by net investment performance, being fees that vary with the size of the underlying policyholder funds, net of investment management expenses.
- **With-profits** represents the pre-tax shareholders' transfer from the with-profits business for the period.
- **Insurance margin** primarily represents profit derived from the insurance risks of mortality and morbidity.
- **Margin on revenues** primarily represents amounts deducted from premiums to cover acquisition costs and administration expenses (see below).
- **Acquisition costs and administration expenses** represent expenses incurred in the period attributable to shareholders. These exclude items such as restructuring costs, which are not included in the segment profit, as well as items that are more appropriately included in other categories (eg investment expenses are netted against investment income as part of spread income or fee income as appropriate).
- **DAC adjustments** comprise DAC amortisation for the period, excluding amounts related to short-term fluctuations in investment returns, net of costs deferred in respect of new business written in the period.

(a) Margin analysis of long-term insurance business – continuing operations

The following analysis expresses certain of the Group's sources of adjusted IFRS operating profit based on longer-term investment returns as a margin of policyholder liabilities or other relevant drivers. Details on the calculation of the Group's average policyholder liability balances are given in note (1).

	2019				
	Asia \$m note (b)	US \$m note (c)	Group total \$m	Average liability \$m note (1)	Margin bps note (2)
Spread income	321	642	963	86,887	111
Fee income	286	3,292	3,578	208,217	172
With-profits	107	–	107	58,032	18
Insurance margin	2,244	1,317	3,561		
Margin on revenues	3,035	–	3,035		
Expenses:					
Acquisition costs ^{note (3)}	(2,156)	(1,074)	(3,230)	7,384	(44)%
Administration expenses	(1,437)	(1,675)	(3,112)	303,204	(103)
DAC adjustments ^{note (4)}	430	510	940		
Expected return on shareholder assets	194	26	220		
	3,024	3,038	6,062		
Share of related tax charges from joint ventures and associate ^{note (5)}	(31)	–	(31)		
Adjusted IFRS operating profit based on longer-term investment returns long-term business	2,993	3,038	6,031		
Adjusted IFRS operating profit based on longer-term investment returns – asset management	283	32	315		
Total segment profit from continuing operations	3,276	3,070	6,346		

	2018 AER ^{notes (6),(7)}				
	Asia \$m note (b)	US \$m note (c)	Group total \$m	Average liability \$m note (1)	Margin bps note (2)
Spread income	310	778	1,088	74,803	145
Fee income	280	3,265	3,545	204,456	173
With-profits	95	–	95	47,548	20
Insurance margin	1,978	1,267	3,245		
Margin on revenues	2,810	–	2,810		
Expenses:					
Acquisition costs ^{note (3)}	(2,007)	(1,013)	(3,020)	7,058	(43)%
Administration expenses	(1,374)	(1,607)	(2,981)	284,985	(105)
DAC adjustments ^{note (4)}	435	(152)	283		
Expected return on shareholder assets	172	14	186		
	2,699	2,552	5,251		
Share of related tax charges from joint ventures and associate ^{note (5)}	(53)	–	(53)		
Adjusted IFRS operating profit based on longer-term investment returns long-term business	2,646	2,552	5,198		
Adjusted IFRS operating profit based on longer-term investment returns – asset management	242	11	253		
Total segment profit from continuing operations	2,888	2,563	5,451		

2018 CER^{notes (6),(7)}

	Asia \$m note (b)	US \$m note (c)	Group total \$m	Average liability \$m note (1)	Margin bps note (2)
Spread income	305	778	1,083	74,690	145
Fee income	277	3,265	3,542	204,111	174
With-profits	94	–	94	47,580	20
Insurance margin	1,966	1,267	3,233		
Margin on revenues	2,790	–	2,790		
Expenses:					
Acquisition costs ^{note (3)}	(1,991)	(1,013)	(3,004)	7,018	(43)%
Administration expenses	(1,359)	(1,607)	(2,966)	284,527	(104)
DAC adjustments ^{note (4)}	430	(152)	278		
Expected return on shareholder assets	172	14	186		
Share of related tax charges from joint ventures and associate ^{note (5)}	(51)	–	(51)		
Adjusted IFRS operating profit based on longer-term investment returns long-term business	2,633	2,552	5,185		
Adjusted IFRS operating profit based on longer-term investment returns – asset management	239	11	250		
Total segment profit from continuing operations	2,872	2,563	5,435		

Notes to the tables throughout I(iv)

- (1) For Asia, opening and closing policyholder liabilities have been used to derive an average balance for the year, as a proxy for average balances throughout the year. The calculation of average liabilities for the US is generally derived from month-end balances throughout the year as opposed to opening and closing balances only. The average liabilities for fee income in the US have been calculated using daily balances instead of month-end balances in order to provide a more meaningful analysis of the fee income, which is charged on the daily account balance. Average liabilities for spread income are based on the general account liabilities to which spread income is attached. Average liabilities used to calculate the administration expenses margin exclude the REALIC liabilities reinsured to third parties prior to the acquisition by Jackson.
- (2) Margin represents the operating return earned in the year as a proportion of the relevant class of policyholder liabilities excluding unallocated surplus.
- (3) The ratio of acquisition costs is calculated as a percentage of APE sales including with-profits sales. Acquisition costs include only those relating to shareholder-backed business.
- (4) The DAC adjustments contain a credit of \$72 million in respect of joint ventures and associate in 2019 (2018: AER credit of \$73 million).
- (5) Under IFRS, the Group's share of results from its investments in joint ventures and associate accounted for using the equity method is included in the Group's profit before tax on a net of related tax basis. These tax charges are shown separately in the analysis of Asia operating profit drivers in order for the contribution from the joint ventures and associate to be included in the margin analysis on a consistent basis as the rest of the Asia's operations.
- (6) The 2018 comparative information has been presented at both AER and CER to eliminate the impact of exchange translation. CER results are calculated by translating prior year results using the current year foreign exchange rates. All CER profit figures have been translated at current year average rates for US dollars to reflect the change in the Group's presentation currency in 2019. For Asia, CER average liabilities have been translated using current year opening and closing exchange rates.
- (7) The 2018 comparative results exclude the contribution from the discontinued UK and Europe operations.

(b) Margin analysis of long-term insurance business – Asia

	2019			2018 AER			2018 CER ^{notes (6),(7)}		
	Profit \$m	Average liability \$m note (1)	Margin bps note (2)	Profit \$m	Average liability \$m note (1)	Margin bps note (2)	Profit \$m	Average liability \$m note (1)	Margin bps note (2)
Spread income	321	29,706	108	310	24,752	125	305	24,639	124
Fee income	286	27,277	105	280	26,398	106	277	26,053	106
With-profits	107	58,032	18	95	47,548	20	94	47,580	20
Insurance margin	2,244			1,978			1,966		
Margin on revenues	3,035			2,810			2,790		
Expenses:									
Acquisition costs ^{note (3)}	(2,156)	5,161	(42)%	(2,007)	4,999	(40)%	(1,991)	4,959	(40)%
Administration expenses	(1,437)	56,984	(252)	(1,374)	51,150	(269)	(1,359)	50,692	(268)
DAC adjustments ^{note (4)}	430			435			430		
Expected return on shareholder assets	194			172			172		
	3,024			2,699			2,684		
Share of related tax charges from joint ventures and associate ^{note (5)}	(31)			(53)			(51)		
Adjusted IFRS operating profit based on longer-term investment returns – long-term business	2,993			2,646			2,633		
Adjusted IFRS operating profit based on longer-term investment returns – asset management (Eastspring Investments)	283			242			239		
Total Asia	3,276			2,888			2,872		

(c) Margin analysis of long-term insurance business – US

	2019			2018		
	Profit \$m	Average liability \$m note (1)	Margin bps note (2)	Profit \$m	Average liability \$m note (1)	Margin bps note (2)
Spread income	642	57,181	112	778	50,051	155
Fee income	3,292	180,940	182	3,265	178,058	183
Insurance margin	1,317			1,267		
Expenses						
Acquisition costs ^{note (3)}	(1,074)	2,223	(48)%	(1,013)	2,059	(49)%
Administration expenses	(1,675)	246,220	(68)	(1,607)	233,835	(69)
DAC adjustments	510			(152)		
Expected return on shareholder assets	26			14		
Adjusted IFRS operating profit based on longer-term investment returns – long-term business	3,038			2,552		
Adjusted IFRS operating profit based on longer-term investment returns – asset management	32			11		
Total US	3,070			2,563		

Analysis of adjusted IFRS operating profit based on longer-term investment returns for US insurance operations before and after acquisition costs and DAC adjustments

	2019 \$m				2018 \$m			
	Before acquisition costs and DAC adjustments	Acquisition costs		After acquisition costs and DAC adjustments	Before acquisition costs and DAC adjustments	Acquisition costs		After acquisition costs and DAC adjustments
		Incurred	Deferred			Incurred	Deferred	
Total adjusted IFRS operating profit based on longer-term investment returns before acquisition costs and DAC adjustments	3,602			3,602	3,717			3,717
Less new business strain		(1,074)	807	(267)		(1,013)	760	(253)
Other DAC adjustments - amortisation of previously deferred acquisition costs:								
Normal			(577)	(577)			(653)	(653)
Deceleration (acceleration)			280	280			(259)	(259)
Total adjusted IFRS operating profit based on longer-term investment returns	3,602	(1,074)	510	3,038	3,717	(1,013)	(152)	2,552

(v) Asia operations – analysis of adjusted IFRS operating profit based on longer-term investment returns by business unit

(a) Analysis of adjusted IFRS operating profit based on longer-term investment returns by business unit

Adjusted operating profit based on longer-term investment returns for Asia operations are analysed below. The table below presents the 2018 results on both AER and CER bases to eliminate the impact of exchange translation.

	2019 \$m	2018 \$m		2019 vs 2018 %	
		AER	CER	AER	CER
Hong Kong	734	591	591	24%	24%
Indonesia	540	555	559	(3)%	(3)%
Malaysia	276	259	252	7%	10%
Philippines	73	57	58	28%	26%
Singapore	493	439	433	12%	14%
Thailand	170	151	157	13%	8%
Vietnam	237	199	197	19%	20%
South-east Asia operations including Hong Kong	2,523	2,251	2,247	12%	12%
China JV	219	191	182	15%	20%
Taiwan	74	68	67	9%	10%
Other	70	68	69	3%	1%
Non-recurrent items*	142	126	124	13%	15%
Total insurance operations	3,028	2,704	2,689	12%	13%
Share of related tax charges from joint ventures and associate	(31)	(53)	(51)	42%	39%
Development expenses	(4)	(5)	(5)	20%	20%
Total long-term business	2,993	2,646	2,633	13%	14%
Asset management (Eastspring Investments)	283	242	239	17%	18%
Total Asia	3,276	2,888	2,872	13%	14%

* In 2019, the adjusted IFRS operating profit based on longer-term investment returns for Asia insurance operations includes a net credit of \$142 million (2018: \$126 million on an AER basis) representing a small number of items that are not expected to reoccur, including the impact of a refinement to the run-off of the allowance for prudence within technical provisions.

(b) Analysis of Eastspring Investments adjusted IFRS operating profit based on longer-term investment returns

	2019 \$m	2018 \$m
Operating income before performance-related fees ^{note (1)}	636	566
Performance-related fees	12	23
Operating income (net of commission) ^{note (2)}	648	589
Operating expense ^{note (2)}	(329)	(311)
Group's share of tax on joint ventures' operating profit	(36)	(36)
Operating profit based on longer-term investment returns	283	242

Average funds managed by Eastspring Investments	\$214.0bn	\$186.3bn
Margin based on operating income*	30bps	30bps
Cost/income ratio [†]	52%	55%

Notes

(1) Operating income before performance-related fees for Eastspring Investments can be further analysed as follows:

	Retail \$m	Margin* bps	Institutional [‡] \$m	Margin* bps	Total \$m	Margin* bps
2019	392	52	244	18	636	30
2018	336	50	230	18	566	30

* Margin represents operating income before performance-related fees as a proportion of the related funds under management. Monthly closing internal and external funds managed by Eastspring have been used to derive the average. Any funds held by the Group's insurance operations that are managed by third parties outside the Prudential Group are excluded from these amounts.

[†] Cost/income ratio represents cost as a percentage of operating income before performance-related fees.

[‡] Institutional includes internal funds.

(2) Operating income and expense include the Group's share of contribution from joint ventures (but excludes any contribution from associates). In the consolidated income statement of the Group IFRS basis results, the net post-tax income of the joint ventures and associates is shown as a single line item.

(c) Eastspring Investments total funds under management

Eastspring Investments, the Group's asset management business in Asia, manages funds from external parties and also funds for the Group's insurance operations. The table below analyses the total funds managed and Eastspring Investments.

	31 Dec 2019 \$bn	31 Dec 2018 \$bn
External funds under management ^{note (1)} :		
Retail	73.7	55.3
Institutional*	37.7	7.7
Money market funds (MMF)	13.3	14.8
	124.7	77.8
Internal funds under management*	116.4	114.9
Total funds under management ^{note (2)}	241.1	192.7

* The 2018 comparative Internal funds under management of \$114.9 billion included \$22.2 billion of funds managed on behalf of M&G plc. Following the demerger, these funds have been reclassified to external funds under management in 2019.

Notes

(1) External funds under management – analysis of movements

	2019 \$m	2018 \$m
At 1 January	77,762	75,601
Market gross inflows	283,268	283,156
Redemptions	(276,215)	(283,271)
Market and other movements	39,907	2,276
At 31 December	124,722	77,762

Note

The analysis of movements above includes \$13,337 million as at 31 December 2019 relating to Asia Money Market Funds (31 December 2018: \$14,776 million).

(2) Total funds under management – analysis by asset class

	31 Dec 2019		31 Dec 2018	
	\$bn	% of total	\$bn	% of total
Equity	107.0	44%	86.6	45%
Fixed income	116.2	48%	86.4	45%
Alternatives	3.4	2%	2.9	1%
MMF	14.5	6%	16.8	9%
Total funds under management	241.1	100%	192.7	100%

II Calculation of alternative performance measures

The annual report uses alternative performance measures (APMs) to provide more relevant explanations of the Group's financial position and performance. This section sets out explanations for each APM and reconciliations to relevant IFRS balances.

II(i) Reconciliation of adjusted IFRS operating profit based on longer-term investment returns to profit before tax from continuing operations

Adjusted IFRS operating profit attributable to shareholders based on longer-term investment returns from continuing operations (operating profit) presents the operating performance of the business. This measurement basis adjusts for the following items within total IFRS profit before tax:

- Short-term fluctuations in investment returns on shareholder-backed business;
- Amortisation of acquisition accounting adjustments arising on the purchase of business; and
- Gain or loss on corporate transactions, such as disposals undertaken in the year and costs connected to the demerger of M&G plc from Prudential plc.

More details on how adjusted IFRS operating profit based on longer-term investment returns is determined are included in note B1.3 of the Group IFRS basis results. A full reconciliation to profit after tax is given in note B1.1.

II(ii) Calculation of IFRS gearing ratio

IFRS gearing ratio is calculated as net core structural borrowings of shareholder-financed businesses divided by closing IFRS shareholders' equity plus net core structural borrowings.

	31 Dec 2019 \$m	31 Dec 2018 \$m
Core structural borrowings of shareholder-financed businesses	5,594	9,761
Less holding company cash and short-term investments	(2,207)	(4,121)
Net core structural borrowings of shareholder-financed businesses	3,387	5,640
Closing shareholders' equity	19,477	21,968
Closing shareholders' equity plus net core structural borrowings	22,864	27,608
IFRS gearing ratio	15%	20%

II(iii) Return on IFRS shareholders' funds

Operating return on IFRS shareholders' funds is calculated as operating profit net of tax and non-controlling interests divided by closing shareholders' equity. Total comprehensive return on shareholders' funds is calculated as IFRS total comprehensive income for the period net of tax and non-controlling interests divided by closing shareholders' equity. Following the demerger of the UK and Europe operations in October 2019 and their treatment as discontinued, it is more meaningful to derive the 2019 return using profit from continuing operations and closing shareholders' equity. The Group will be introducing a new return on equity performance measure for the Group's 2020 Prudential Long-Term Incentive Plan (PLTIP) awards alongside other metrics. This measure is to be calculated as operating profit after tax and net of non-controlling interests, divided by average shareholders' equity. Accordingly, the calculation of the return on IFRS shareholders' funds going forward will be aligned to be based on average shareholders' equity.

Detailed reconciliation of operating profit based on longer-term investment returns to IFRS profit before tax for the Group's continuing operations is shown in note B1.1 to the Group IFRS basis results.

	2019 \$m					Adjusted Group (excluding demerger-related items*)
	Asia	US	Unallocated to a segment (central operations)	Group	Add back demerger-related items*	
Continuing operations						
Operating profit based on longer-term investment returns	3,276	3,070	(1,036)	5,310	179	5,489
Tax on operating profit	(436)	(437)	100	(773)	(34)	(807)
Profit attributable to non-controlling interests	(6)	-	(3)	(9)	-	(9)
Operating profit based on longer-term investment returns, net of tax and non-controlling interests	2,834	2,633	(939)	4,528	145	4,673
Non-operating profit (loss), net of tax	885	(3,013)	(456)	(2,584)	383	(2,201)
IFRS profit for the year net of tax and non-controlling interests	3,719	(380)	(1,395)	1,944	528	2,472
Other comprehensive income, net of tax and non-controlling interests	192	2,679	(146)	2,725	-	2,725
IFRS total comprehensive income	3,911	2,299	(1,541)	4,669	528	5,197
Closing shareholders' funds	10,866	8,929	(318)	19,477	-	19,477
Operating return on shareholders' funds (%)	26%	29%	n/a	23%	-	24%
Total comprehensive return on shareholders' funds (%)	36%	26%	n/a	24%	-	27%

* Demerger-related items comprise interest on the subordinated debt that was substituted to M&G plc prior to the demerger (\$179 million pre-tax) and one-off costs of the demerger (\$407 million pre-tax).

	2018 \$m	
	Asia	US
Operating profit based on longer-term investment returns	2,888	2,563
Tax on operating profit	(411)	(402)
Profit attributable to non-controlling interests	(1)	-
Operating profit based on longer-term investment returns, net of tax and non-controlling interests	2,476	2,161
Non-operating profit (loss), net of tax	(662)	(179)
IFRS profit for the year, net of tax and non-controlling interests	1,814	1,982
Other comprehensive income, net of tax and non-controlling interests	(206)	(1,446)
IFRS total comprehensive income	1,608	536
Closing shareholders' funds	8,175	7,163
Operating return on shareholders' funds (%)	30%	30%
Total comprehensive return on shareholders' funds (%)	20%	7%

* Given the significant changes of Group shareholders' funds as a result of the demerger of the UK and Europe operations in October 2019, it is not meaningful to compare the 2019 and 2018 returns on shareholders' funds at a Group level. The 2018 comparatives have therefore excluded the presentation of a Group return on shareholders' funds. Additionally, the 2018 comparatives for Asia and US operations have been re-presented from those previously published to reflect the use of closing rather than opening shareholders' funds to be on a comparable basis with the 2019 calculation.

II(iv) Calculation of IFRS shareholders' funds per share

IFRS shareholders' funds per share is calculated as closing IFRS shareholders' equity divided by the number of issued shares at 31 December 2019 of 2,601 million (31 December 2018: 2,593 million). The demerger alters the size of the Group's shareholders' equity and the nature of its operations, rendering a comparison with the prior year return on shareholders' funds value unrepresentative.

	2019			Group total
	Asia	US	Other	
Closing IFRS shareholders' equity (\$ million)	10,866	8,929	(318)	19,477
Shareholders' funds per share (cents)	418¢	343¢	(12)¢	749¢

II(v) Calculation of asset management cost/income ratio

The asset management cost/income ratio is calculated as asset management operating expenses, adjusted for commission and joint venture contribution, divided by asset management total IFRS revenue adjusted for commission, joint venture contribution, performance-related fees and non-operating items.

	Eastspring Investments	
	2019 \$m	2018 \$m
Operating income before performance-related fees^{note}	636	566
Share of joint venture revenue	(244)	(250)
Commission	165	156
Performance-related fees	12	23
IFRS revenue	569	495
Operating expense	329	311
Share of joint venture expense	(102)	(133)
Commission	165	156
IFRS charges	392	334
Cost/income ratio: operating expense/operating income before performance-related fees	52%	55%

Note

Operating income and expense include the Group's share of contribution from joint ventures (but excludes any contribution from associates). In the consolidated income statement of the Group IFRS basis results, the net post-tax income of the joint ventures and associates is shown as a single line item.

II(vi) Reconciliation of Asia renewal insurance premium to gross premiums earned

Reconciliation of Asia renewal insurance premium to gross earned premiums and calculation of Asia Life weighted premium income.

	2019 \$m	2018 \$m	
		AER	CER
Asia renewal insurance premium	19,007	17,165	17,046
Add: General insurance premium	135	120	122
Add: IFRS gross earned premium from new regular and single premium business	6,386	6,421	6,402
Less: Renewal premiums from joint ventures	(1,771)	(1,717)	(1,657)
Asia segment IFRS gross premiums earned	23,757	21,989	21,913
Asia renewal insurance premium (as above)	19,007	17,165	17,046
Asia APE (see Note II(vi))	5,161	4,999	4,959
Asia life weighted premium income	24,168	22,164	22,005

II(vii) Reconciliation of APE new business sales to gross premiums earned

The Group reports APE new business sales as a measure of the new policies sold in the period. This differs from the IFRS measure of gross premiums earned as shown below:

	2019 \$m	2018 \$m
Annual premium equivalents (APE) from continuing operations	7,384	7,058
Adjustment to include 100% of single premiums on new business sold in the year ^{note (a)}	23,409	21,318
Premiums from in-force business and other adjustments ^{note (b)}	14,271	17,238
Gross premiums earned from continuing operations	45,064	45,614

Notes

- (a) APE new business sales only include one tenth of single premiums, recorded on policies sold in the year. Gross premiums earned include 100 per cent of such premiums.
- (b) Other adjustments principally include amounts in respect of the following:
- Gross premiums earned include premiums from existing in-force business as well as new business. The most significant amount is recorded in Asia, where a significant portion of regular premium business is written. Asia in-force premiums form the vast majority of the other adjustment amount;
 - In October 2018, Jackson entered into a 100 per cent reinsurance agreement with John Hancock Life Insurance Company to acquire a closed block of group payout annuity business. The transaction resulted in an addition to gross premiums earned of \$5.0 billion in 2018. No amounts were included in APE new business sales.
 - APE includes new policies written in the year which are classified as investment contracts without discretionary participation features under IFRS 4, arising mainly in Jackson for guaranteed investment contracts and in M&G plc for certain unit-linked savings and similar contracts. These are excluded from gross premiums earned and recorded as deposits;
 - APE new business sales are annualised while gross premiums earned are recorded only when revenues are due; and
 - For the purpose of reporting APE new business sales, the Group's share of amounts sold by the Group's insurance joint ventures and associates are included. Under IFRS, joint ventures and associates are equity accounted and so no amounts are included within gross premiums earned.

II(viii) Reconciliation between IFRS and EEV shareholders' equity

The table below shows the reconciliation of EEV shareholders' equity and IFRS shareholders' equity at the end of the year:

	31 Dec 2019 \$m	31 Dec 2018 \$m
EEV shareholders' equity	54,711	63,402
Less: Value of in-force business of long-term business ^{note (a)}	(41,893)	(42,045)
Deferred acquisition costs assigned zero value for EEV purposes	14,239	12,834
Other ^{note (b)}	(7,580)	(12,223)
IFRS shareholders' equity	19,477	21,968

Notes

- (a) The EEV shareholders' equity comprises the present value of the shareholders' interest in the value of in-force business, total net worth of long-term business operations and IFRS shareholders' equity of asset management and other operations. The value of in-force business reflects the present value of expected future shareholder cash flows from long-term in-force business which are not captured as shareholders' interest on an IFRS basis. Total net worth represents the net assets for EEV reporting that reflect the regulatory basis position, with adjustments to achieve consistency with the IFRS treatment of certain items as appropriate.
- (b) Other adjustments represent asset and liability valuation differences between IFRS and the local regulatory reporting basis used to value total net worth for long-term insurance operations. These also include the mark-to-market value movements of the Group's core structural borrowings which are fair valued under EEV but are held at amortised cost under IFRS. The most significant valuation differences relate to changes in the valuation of insurance liabilities. For example, in Jackson, IFRS liabilities are higher than the local regulatory basis as they are principally based on policyholder account balances (with a deferred acquisition costs recognised as an asset), whereas the local regulatory basis used for EEV reporting is based on expected future cash flows due to the policyholder on a prudent basis, with the consideration of an expense allowance, as applicable, but with no separate deferred acquisition cost asset.

European Embedded Value (EEV) Basis Results

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Description of EEV basis reporting

In broad terms, IFRS profit for long-term business reflects the aggregate of results on a traditional accounting basis. By contrast, EEV is a way of reporting the value of the life insurance business.

The EEV basis results have been prepared in accordance with the EEV Principles issued by the European Insurance CFO Forum in 2016. The EEV Principles provide consistent definitions, a framework for setting actuarial assumptions and an approach to the underlying methodology and disclosures. All results are stated net of tax and converted using actual exchange rates (AER) unless otherwise stated. AER are actual historical exchange rates for the specific accounting period.

* The additional financial information is not covered by the KPMG LLP independent audit opinion.

European Embedded Value (EEV) Basis Results

SUMMARISED CONSOLIDATED INCOME STATEMENT

	Note	2019 \$m			2018 \$m
		Asia	US	Group total	Group total
Continuing operations:					
New business	3	3,522	883	4,405	4,707
Business in force	4	2,366	874	3,240	3,975
Long-term business		5,888	1,757	7,645	8,682
Asset management		250	25	275	216
Operating profit from long-term business and asset management					
Other income and expenditure ^{note (i)}				(923)	(969)
Restructuring costs ^{note (ii)}				(92)	(63)
Operating profit from continuing operations					
Short-term fluctuations in investment returns	5			3,254	(3,335)
Effect of changes in economic assumptions	6			(1,868)	416
Impact of NAIC reform, hedge modelling and other related changes in the US	7			(3,457)	-
Mark-to-market value movements on core structural borrowings	8			(466)	733
Loss attaching to corporate transactions	9			(207)	(100)
Non-operating loss from continuing operations				(2,744)	(2,286)
Profit for the year from continuing operations					
(Loss) profit for the year from discontinued operations					
(Loss) profit for the year					

Attributable to:

Equity holders of the Company:

From continuing operations				4,152	5,576
From discontinued operations				(4,797)	546
Non-controlling interests from continuing operations				9	4
				(636)	6,126

EEV basis basic earnings per share

	2019	2018
Based on operating profit from continuing operations after non-controlling interests (in cents)	266.6¢	305.3¢
Based on (loss) profit for the year attributable to equity holders of the Company (in cents)		
From continuing operations	160.5¢	216.5¢
From discontinued operations	(185.4)¢	21.2¢
	(24.9)¢	237.7¢
Weighted average number of shares in the year (millions)	2,587	2,575

Notes

- (i) EEV basis other income and expenditure represents the post-tax IFRS basis results for other operations (including interest costs on core structural borrowings, corporate expenditure for head office functions in London and Hong Kong, the Group's treasury function and Africa operations) less the unwind of expected margins on the internal management of the assets of the covered business (as explained in note 14(i)(g)).
- (ii) Restructuring costs include group-wide costs incurred for IFRS 17 implementation in 2019 from continuing operations.

MOVEMENT IN SHAREHOLDERS' EQUITY

	2019 \$m					2018* \$m	
	Asia	US	Other	Total continuing operations	Discontinued UK and Europe operations	Group total	Group total
Continuing operations:							
Operating profit from long-term and asset management businesses	6,138	1,782	-	7,920	-	7,920	8,898
Other income and expenditure	-	-	(923)	(923)	-	(923)	(969)
Restructuring costs	(31)	(5)	(56)	(92)	-	(92)	(63)
Operating profit (loss) from continuing operations	6,107	1,777	(979)	6,905	-	6,905	7,866
Non-operating profit (loss) from continuing operations	1,962	(3,802)	(904)	(2,744)	-	(2,744)	(2,286)
Profit (loss) for the year from continuing operations	8,069	(2,025)	(1,883)	4,161	-	4,161	5,580
(Loss) profit for the year from discontinued operations^{note (iv)}	-	-	-	-	(4,797)	(4,797)	546
Profit (loss) for the year	8,069	(2,025)	(1,883)	4,161	(4,797)	(636)	6,126
Non-controlling interests	(6)	-	(3)	(9)	-	(9)	(4)
Foreign exchange movements on operations	409	-	34	443	223	666	(1,574)
Intra-group dividends and investment in operations ^{note (i)}	(1,270)	(525)	7,276	5,481	(5,481)	-	-
External dividends	-	-	(1,634)	(1,634)	-	(1,634)	(1,662)
Mark-to-market value movements on Jackson assets backing surplus and required capital	-	206	-	206	-	206	(127)
Other movements ^{note (ii)}	25	(23)	(40)	(38)	133	95	176
Demerger dividend in specie of M&G plc	-	-	-	-	(7,379)	(7,379)	-
Net increase (decrease) in shareholders' equity	7,227	(2,367)	3,750	8,610	(17,301)	(8,691)	2,935
Shareholders' equity at beginning of year	32,008	18,709	(4,616)	46,101	17,301	63,402	60,467
Shareholders' equity at end of year	39,235	16,342	(866)	54,711	-	54,711	63,402
Representing:							
Long-term business	37,843	16,336	-	54,179	-	54,179	64,174
Asset management and other	596	6	(892)	(290)	-	(290)	(2,874)
Goodwill ^{note (v)}	796	-	26	822	-	822	2,102
Shareholders' equity at end of year	39,235	16,342	(866)	54,711	-	54,711	63,402
Shareholders' equity per share at end of year ^{note (iii)}	1,508¢	628¢	(33)¢	2,103¢	-	2,103¢	2,445¢
Long-term business	30,985	18,658	-	49,643	14,531	64,174	62,116
Asset management and other	389	51	(4,616)	(4,176)	1,302	(2,874)	(3,621)
Goodwill ^{note (v)}	634	-	-	634	1,468	2,102	1,972
Shareholders' equity at beginning of year	32,008	18,709	(4,616)	46,101	17,301	63,402	60,467
Shareholders' equity per share at beginning of year ^{note (iii)}	1,234¢	722¢	(178)¢	1,778¢	667¢	2,445¢	2,337¢

* The 2018 comparative results have been re-presented from those previously published to reflect the change in the Group's presentation currency from pounds sterling to US dollars and the reclassification of the Group's UK and Europe operations as discontinued operations in 2019 (see note 1).

Notes

- (i) Intra-group dividends represent dividends that have been declared in the year. Dividends payable by the discontinued UK and Europe operations (M&G plc) to Prudential plc includes a \$3,841 million pre-demerger dividend, cash dividends paid in the period of \$684 million and restructuring impacts related to the demerger. Investment in operations reflects movements in share capital. The amounts included for these items in the analysis of movement in free surplus (note 11) for Asia are as per the holding company cash flow at transaction rates. The difference primarily relates to intra-group loans, foreign exchange and other non-cash items.
- (ii) Other movements include reserve movements in respect of the shareholders' share of actuarial gains and losses on defined benefit pension schemes that were transferred to M&G plc at 30 June 2019, share capital subscribed, share-based payments, treasury shares and intra-group transfers between operations that have no overall effect on the Group's shareholders' equity.
- (iii) Based on the number of issued shares at the end of 2019 of 2,601 million shares (end of 2018/beginning of 2019: 2,593 million shares, beginning of 2018: 2,587 million shares).
- (iv) On 21 October 2019, the Group completed the demerger of its UK and Europe operations (M&G plc), resulting in two separately listed companies. The demerger dividend in specie of M&G plc has been recorded at the fair value of M&G plc at the date of the demerger. The difference between the fair value and its carrying value, together with profit earned up to the date of the demerger have been recorded as loss for the year from the discontinued UK and Europe operations.
- (v) Representing goodwill attributable to shareholders.

SUMMARY STATEMENT OF FINANCIAL POSITION

	31 Dec 2019 \$m	31 Dec 2018 \$m
Assets less liabilities before deduction of insurance funds	396,241	549,264
Less insurance funds:*		
Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with-profits funds	(376,572)	(527,273)
Shareholders' accrued interest in the long-term business	35,234	41,434
	(341,338)	(485,839)
Less non-controlling interests	(192)	(23)
Total net assets attributable to equity holders of the Company	54,711	63,402
Share capital	172	166
Share premium	2,625	2,502
IFRS basis shareholders' reserves	16,680	19,300
IFRS basis shareholders' equity	19,477	21,968
Shareholders' accrued interest in the long-term business	35,234	41,434
EEV basis shareholders' equity	54,711	63,402
Representing:		
Continuing operations	54,711	46,101
Discontinued UK and Europe operations	-	17,301
EEV basis shareholders' equity	54,711	63,402

* Including liabilities in respect of insurance products classified as investment contracts under IFRS 4.

NOTES ON THE EEV BASIS RESULTS

1 Basis of preparation

The EEV basis results have been prepared in accordance with the EEV Principles issued by the European Insurance CFO Forum in 2016. The EEV Principles provide consistent definitions, a framework for setting actuarial assumptions and an approach to the underlying methodology and disclosures. Where appropriate, the EEV basis results include the effects of adoption of EU-endorsed IFRS. The Directors are responsible for the preparation of the supplementary information in accordance with the EEV Principles.

The Group completed the demerger of its UK and Europe operations, M&G plc, from the Prudential plc Group on 21 October 2019. In line with the treatment of the results under IFRS, the EEV basis results for the Group's UK and Europe operations have been reclassified as discontinued operations and removed from the Group's key performance indicators (KPIs). In the subsequent notes, comparative amounts have been represented to show continuing operations only in order to present the results on a comparable basis. The Directors have also elected to change the Group's presentation currency from pounds sterling to US dollars. The 2018 comparative results have been accordingly re-presented from those previously published for these changes (see note A1 of the Group IFRS financial statements for exchange rates used).

Overview

Results prepared under the EEV Principles represent the present value of the shareholders' interest in the post-tax future profits (on a local statutory basis) expected to arise from the current book of long-term business, after sufficient allowance has been made for the aggregate risks in that business. The shareholders' interest in the Group's long-term business comprises:

- The present value of expected future shareholder cash flows from the in-force covered business (value of in-force business), less explicit allowance for the cost of locked-in required capital and the time value of financial options and guarantees across a range of economic scenarios;
- Locked-in required capital, based on the applicable local statutory regulations, including any amounts considered to be required above the local statutory minimum requirements to satisfy regulatory constraints (the application of this principle to each business unit is set out below); and
- The shareholders' total net worth in excess of required capital (free surplus). Free surplus is defined in note 11.

Required capital

For shareholder-backed business, the following capital requirements apply for long-term business:

- Asia: the level of required capital has been set to an amount at least equal to local statutory notification requirements. For China JV life operations, the level of required capital follows the approach for embedded value reporting issued by the China Association of Actuaries (CAA) reflecting the China Risk Oriented Solvency System (C-ROSS) regime; and
- US: the level of required capital has been set at 250 per cent of the risk-based capital (RBC) required by the National Association of Insurance Commissioners (NAIC) at the Company Action Level (CAL).

Key assumptions

The value of in-force business is determined by projecting post-tax future profits (on a local statutory basis) by product, using best estimate assumptions for operating factors such as persistency, mortality, morbidity and expenses. Explicit allowances are made for the cost of holding required capital under the applicable local statutory regimes and the time value of financial options and guarantees (TVOG). The TVOG is determined by weighting the probability of outcomes across a large number of different economic scenarios, and is less applicable to health and protection business that generally contain more limited financial options or guarantees.

As well as best estimate assumptions for operating factors, the projected cash flows assume a level of future investment return and are discounted using a risk discount rate. Both the risk discount rate and investment return are updated at each valuation date in line with changes in the risk-free rates. During 2019, this has had an overall negative effect on new business and in-force profitability. Different products will be sensitive to different assumptions, for example, spread-based products or products with guarantees are likely to benefit from higher assumed investment returns.

Risk discount rates are set equal to the risk-free rate at the valuation date plus a product-specific allowance for market and non-market risks, excluding risks explicitly captured elsewhere such as via the TVOG. Products such as participating and unit-linked business will have typically a higher allowance for market risk as compared to health and protection products due to a higher proportion of equity-type assets within the investment portfolio. Other product design and business features also affect the risks attached to the emergence of shareholder cash flows, for example, the construct of with-profits funds in some business units can reduce the sensitivity of both policyholder and shareholder cash flows for participating products. Risk discount rates in any one business unit will reflect a blend of the risks attaching to the products written in that business.

The value of future new business is excluded from the embedded value.

A description of the EEV methodology and accounting presentation is provided in note 14, including an explanation of the delineation of profit between operating profit based on longer-term investment returns and non-operating items. Further details of best estimate assumptions are provided in note 15.

2 Results analysis by business area

The 2018 comparative results are shown below on both actual exchange rates (AER) and constant exchange rates (CER) bases. The 2018 CER comparative results are translated at 2019 average exchange rates for US dollars following the change in the Group's presentation currency.

Annual premium equivalents (APE) from continuing operations^{note 16}

	2019 \$m		Actual exchange rate				Constant exchange rate			
			2018 \$m		Change %		2018 \$m		Change %	
	Annual premium equivalent	New business profit	Annual premium equivalent	New business profit	Annual premium equivalent	New business profit	Annual premium equivalent	New business profit	Annual premium equivalent	New business profit
Asia	5,161	3,522	4,999	3,477	3%	1%	4,959	3,460	4%	2%
US	2,223	883	2,059	1,230	8%	(28)%	2,059	1,230	8%	(28)%
Group total	7,384	4,405	7,058	4,707	5%	(6)%	7,018	4,690	5%	(6)%

Profit for the year

	2019 \$m	Actual exchange rate		Constant exchange rate	
		2018 \$m	Change %	2018 \$m	Change %
Continuing operations:					
Asia					
Long-term business	5,888	5,858	1%	5,843	1%
Asset management	250	212	18%	209	20%
Total	6,138	6,070	1%	6,052	1%
US					
Long-term business	1,757	2,824	(38)%	2,824	(38)%
Asset management	25	4	525%	4	525%
Total	1,782	2,828	(37)%	2,828	(37)%
Operating profit from long-term business and asset management	7,920	8,898	(11)%	8,880	(11)%
Other income and expenditure	(923)	(969)	5%	(936)	1%
Restructuring costs	(92)	(63)	(46)%	(61)	(51)%
Operating profit from continuing operations	6,905	7,866	(12)%	7,883	(12)%
Short-term fluctuations in investment returns	3,254	(3,335)		(3,333)	
Effect of changes in economic assumptions	(1,868)	416		417	
Impact of NAIC reform, hedge modelling and other related changes in the US	(3,457)	-		-	
Mark-to-market value movements on core structural borrowings	(466)	733		702	
Loss attaching to corporate transactions	(207)	(100)		(99)	
Total non-operating loss from continuing operations	(2,744)	(2,286)		(2,313)	
Profit for the year from continuing operations	4,161	5,580	(25)%	5,570	(25)%
(Loss) profit for the year from discontinued operations	(4,797)	546	(979)%	522	(1019)%
(Loss) profit for the year	(636)	6,126	(110)%	6,092	(110)%

EEV basis basic earnings per share

	2019	Actual exchange rate		Constant exchange rate	
		2018	Change %	2018	Change %
Based on operating profit from continuing operations after non-controlling interests (in cents)	266.6¢	305.3¢	(13)%	306.1¢	(13)%
Based on (loss) profit for the year attributable to equity holders of the Company (in cents):					
From continuing operations	160.5¢	216.5¢	(26)%	216.3¢	(26)%
From discontinued operations	(185.4)¢	21.2¢	(975)%	20.3¢	(1013)%
	(24.9)¢	237.7¢	(110)%	236.6¢	(111)%

3 Analysis of new business contribution

	2019				
	Annual premium equivalents (APE) \$m note 16	Present value of new business premiums (PVNBP) \$m note 16	New business contribution \$m note (i)	New business margin	
				APE %	PVNBP %
Asia ^{note (ii)}	5,161	29,244	3,522	68%	12.0%
US	2,223	22,231	883	40%	4.0%
Group total	7,384	51,475	4,405	60%	8.6%

	2018				
	Annual premium equivalents (APE) \$m note 16	Present value of new business premiums (PVNBP) \$m note 16	New business contribution \$m note (i)	New business margin	
				APE %	PVNBP %
Asia ^{note (ii)}	4,999	27,711	3,477	70%	12.5%
US	2,059	20,593	1,230	60%	6.0%
Group total	7,058	48,304	4,707	67%	9.7%

Notes

- (i) The movement in new business contribution from \$4,707 million for 2018 to \$4,405 million for 2019 from continuing operations is analysed as follows:

	Asia \$m	US \$m	Group total \$m
2018 new business contribution	3,477	1,230	4,707
Foreign exchange movement	(17)	-	(17)
Effect of changes in interest rates and other economic assumptions	(35)	(155)	(190)
Impact of US EEV hedge modelling enhancements ^{note 7}	-	(114)	(114)
Sales volume, business and product mix and other items	97	(78)	19
2019 new business contribution	3,522	883	4,405

- (ii) Asia new business contribution is analysed as follows:

	2019 \$m	2018 \$m	
		AER	CER
China JV	262	199	190
Hong Kong	2,042	2,309	2,310
Indonesia	227	163	163
Taiwan	75	61	56
Other	916	745	741
Total Asia	3,522	3,477	3,460

4 Operating profit from long-term business in force

	2019 \$m			2018 \$m		
	Asia	US	Group total	Asia	US	Group total
Unwind of discount and other expected returns ^{note (i)}	1,542	728	2,270	1,626	1,176	2,802
Effect of changes in operating assumptions ^{note (ii)}	539	1	540	457	154	611
Experience variances and other items ^{note (iii)}	285	145	430	298	264	562
Total operating profit from long-term business in force	2,366	874	3,240	2,381	1,594	3,975

Notes

- (i) The movement in unwind of discount and other expected returns from \$2,802 million for 2018 to \$2,270 million for 2019 from continuing operations is analysed as follows:

	Asia \$m	US \$m	Group total \$m
2018 unwind of discount and other expected returns	1,626	1,176	2,802
Foreign exchange movement	(12)	-	(12)
Effect of changes in interest rates and other economic assumptions	(234)	(104)	(338)
Impact of US EEV hedge modelling enhancements ^{note 7}	-	(210)	(210)
Growth in opening value of in-force business and other items	162	(134)	28
2019 unwind of discount and other expected returns	1,542	728	2,270

- (ii) The 2019 effect of changes in operating assumptions of \$539 million in Asia principally reflects the outcome from the annual review of persistency, claims and expense experience, together with the benefit of medical repricing management actions and the beneficial effect on the effective tax rate for China JV from changes to tax legislation in the first half of 2019.
- (iii) In Asia, the 2019 effect of experience variances and other items of \$285 million is driven overall by positive mortality and morbidity experience in a number of local business units, together with positive persistency variance from participating and health and protection products.

In the US, the effect of experience variances and other items is analysed as follows:

	2019 \$m	2018 \$m
Spread experience variance	38	52
Amortisation of interest-related realised gains and losses	102	123
Other items	5	89
Total US experience variances and other items	145	264

5 Short-term fluctuations in investment returns

	2019 \$m	2018 \$m
Asia		
Hong Kong	1,526	(737)
Indonesia	(14)	(103)
Malaysia	(20)	(109)
Singapore	338	(311)
Taiwan	147	(37)
Thailand	319	(61)
Other	155	(16)
Total Asia ^{note (i)}	2,451	(1,374)
US		
Investment return related experience on fixed income securities ^{note (ii)}	(243)	80
Investment return related impact due to changed expectation of profits on in-force variable annuity business in future periods based on current period separate account return, net of related hedging activity and other items ^{note (iii)}	1,119	(2,057)
Total US	876	(1,977)
Other operations	(73)	16
Group total	3,254	(3,335)

Notes

- (i) For 2019, the credit of \$2,451 million mainly represents the increase in bond and equity values in Hong Kong and higher than expected investment returns in Singapore, Thailand and Taiwan. The small losses in Indonesia and Malaysia represent bond gains being more than offset by lower than expected equity returns.
- (ii) The net result relating to fixed income securities reflects a number of offsetting items as follows:
- The impact on portfolio yields of changes in the asset portfolio in the year;
 - Credit experience versus the longer-term assumption (which in 2019 was positive); and
 - The difference between actual realised gains and losses and the amortisation of interest-related realised gains and losses that is recorded within operating profit.
- (iii) This item reflects the net impact of:
- Changes in projected future fees and future benefit costs arising from the difference between the actual growth in separate account asset values of 24.1 per cent and that assumed of 4.8 per cent (geometric) (2018: actual growth of negative 5.4 per cent compared to assumed growth of positive 5.3 per cent (geometric)); and
 - Related hedging activity arising from realised and unrealised gains and losses on equity and interest rate derivatives compared to the updated expected long-term allowance for hedging costs recorded in operating profit, and other items.

6 Effect of changes in economic assumptions

	2019 \$m	2018 \$m
Asia		
Hong Kong	(853)	220
Indonesia	141	(126)
Malaysia	127	(25)
Singapore	18	93
Taiwan	(142)	(19)
Thailand	(220)	37
Other	262	(27)
Total Asia ^{note (i)}	(667)	153
US		
Variable annuity business ^{note (ii)}	(1,556)	487
Fixed annuity and other general account business ^{note (iii)}	355	(224)
Total US	(1,201)	263
Group total	(1,868)	416

Notes

- (i) In 2019, the negative effect of \$(667) million largely arises from movements in long-term interest rates, resulting in lower assumed fund earned rates in Hong Kong, Thailand and Taiwan, partially offset by the positive effect of lower risk discount rates in Indonesia and Malaysia in valuing future profits for health and protection business and the effect of changes to the basis of setting economic assumptions as described in note 14(i)(h) and note 15(i).
- (ii) In 2019, the charge of \$(1,556) million mainly reflects the effect of a decrease in the assumed separate account return, following the 80 basis points decrease in the US 10-year treasury yield over the year, partially offset by the increase in US equity risk premium as described in note 15(i), resulting in lower projected fee income and an increase in projected benefit costs for variable annuity business.
- (iii) For fixed annuity and other general account business, the impact of \$355 million reflects the increase in the present value of future projected spread income from the combined decrease in interest rates and credit spreads in the year.

7 Impact of NAIC reform, hedge modelling and other related changes in the US

	2019 \$m
Impact of NAIC reform adopted at 31 December 2019 ^{note (i)}	37
Impact of hedge modelling changes and other NAIC reform related changes ^{note (ii)}	(3,494)
Total EEV impact of NAIC reform, hedge modelling and other related changes in the US	(3,457)

Notes

(i) The National Association of Insurance Commissioners (NAIC) has implemented changes to the US statutory reserve and capital framework for variable annuities, effective from 1 January 2020. Jackson has chosen to early adopt the changes at 31 December 2019 for US statutory reporting and the Group has updated EEV accordingly. The impact on Group EEV is a \$37 million benefit, with the increase in the cost of capital from higher capital requirements more than offset by the timing benefit from releasing policyholder liabilities earlier than previously anticipated. The impact on the various components of EEV as at 31 December 2019 is shown below. As discussed in note 14(i)(e), the below is based on a capital requirement of 250 per cent of the risk-based capital company action level and so the impact on free surplus is not equal to the effect on Jackson's US statutory position.

	Free surplus \$m	Required capital \$m	Total net worth \$m	Value of in-force business \$m	Total embedded value \$m
Impact of NAIC reform adopted at 31 December 2019	(64)	343	279	(242)	37

Given that the NAIC reform was adopted at 31 December 2019, with the exception of the amounts shown above there are no other impacts from this change recorded in the 2019 EEV consolidated income statement or in the analysis of movement in free surplus. If the changes had been adopted with effect from 1 January 2019, the Group's 2019 EEV results would not be expected to be materially different.

(ii) Following the implementation of the NAIC's changes to the US statutory reserve and capital framework, enhancements were made to the model used to allow for hedging within US statutory reporting. As a consequence, the Group has chosen to utilise the enhanced model within EEV to update its allowance for the long-term cost of hedging under EEV economic assumptions. In common with established practice for such changes, the EEV income statement has been prepared on the basis that this change had been effected at the start of the year, at a cost of \$(3,233) million, included in non-operating profit.

The initial impact on EEV is shown as a reduction in the value of in-force business as at 1 January 2019, and so the unwind of those cash flows over the year reduces the expected transfer to net worth and hence operating free surplus generation by \$(903) million. This leads to an equal and offsetting benefit in short-term fluctuations as the excess of the actual cost of hedging in 2019 over the expected cost falls accordingly. There is no impact on total free surplus generation for 2019. See note 11 for the US free surplus results.

There were no changes to Jackson's hedging philosophy during 2019, which continues to focus on the underlying economics of the products whilst managing the volatility in the statutory position. The revised allowance for the long-term cost of hedging is expected to give a more refined indication of the expected long-term cost of the dynamic hedging programme under EEV economic assumptions, albeit it is not intended to reflect the exact derivatives held at a given point in time. In common with other long-term assumptions, the allowance for the expected cost of hedging in EEV will be kept under review, particularly in light of future experience under the new variable annuity statutory capital regime.

In addition to the enhancement to the cost of hedging described above, a number of other changes have been made to EEV reporting following the NAIC reform, coupled with the objective of bringing the EEV free surplus more in line with the US statutory basis of reporting. The total impact of these changes as recorded in EEV non-operating profit was \$(261) million. A reconciliation of EEV free surplus to surplus under the Group's LCSM capital measure at 31 December 2019 by segment is provided in note I(i) in the additional financial information.

8 Net core structural borrowings of shareholder-financed businesses

	31 Dec 2019 \$m			31 Dec 2018 \$m		
	IFRS basis	Mark-to-market value adjustment	EEV basis at market value	IFRS basis	Mark-to-market value adjustment	EEV basis at market value
Holding company cash and short-term investments ^{note (i)}	(2,207)	-	(2,207)	(4,121)	-	(4,121)
Central borrowings:						
Subordinated debt held post demerger of M&G plc ^{note (ii)}	4,304	327	4,631	4,785	(138)	4,647
Senior debt	690	221	911	658	222	880
Bank loan	350	-	350	350	-	350
Central funds before amounts substituted to M&G plc	5,344	548	5,892	5,793	84	5,877
Subordinated debt substituted to M&G plc in 2019 ^{note (iii)}	-	-	-	3,718	82	3,800
Total central borrowings	5,344	548	5,892	9,511	166	9,677
Total net borrowings for central operations	3,137	548	3,685	5,390	166	5,556
Jackson Surplus Notes	250	85	335	250	67	317
Net core structural borrowings of shareholder-financed businesses^{note (iv)}	3,387	633	4,020	5,640	233	5,873

Notes

- (i) Holding company includes central finance subsidiaries.
- (ii) In May 2019, the Company redeemed its £400 million 11.375 per cent subordinated notes.
- (iii) In October 2019, Prudential plc transferred subordinated debt to M&G plc as part of the demerger. In addition to the subordinated debt held at 31 December 2018 as shown in the table above, the debt transferred included the further £300 million 3.875 per cent subordinated debt raised in July 2019.
- (iv) The movement in the value of core structural borrowings includes foreign exchange effects for pounds sterling denominated debts, which are included in 'Exchange movements on foreign operations'. The movement in the mark-to-market value adjustment can be analysed as follows:

	2019 \$m	2018 \$m
Mark-to-market value adjustment at beginning of year	233	1,005
Mark-to-market value adjustment on subordinated debt substituted to M&G plc at beginning of year	(82)	-
Charge (credit) in respect of mark-to-market movements included in the income statement*	466	(733)
Effect of foreign exchange movements for pounds sterling denominated debts	16	(39)
Mark-to-market value adjustment at end of year	633	233

* Relates to continuing debt only.

9 Gain (loss) attaching to corporate transactions

	2019 \$m	2018 \$m
Gain on disposals ^{note (i)}	178	-
Other corporate transactions ^{note (ii)}	(385)	(100)
Total	(207)	(100)

Notes

- (i) In 2019, the \$178 million gain on disposals mainly relates to profits arising from a reduction in the Group's stake (from 26 per cent to 22 per cent) in its associate in India, ICICI Prudential Life Insurance Company, and the disposal of Prudential Vietnam Finance Company Limited, a wholly owned subsidiary that provides consumer finance.
- (ii) In 2019, other corporate transactions undertaken by continuing operations resulted in an EEV loss of \$(385) million (2018: \$(100) million). This primarily reflects costs related to the demerger of M&G plc from Prudential plc.

10 Analysis of movement in total net worth and value of in-force for long-term business

	2019 \$m				
	Free surplus	Required capital	Total net worth	Value of in-force business	Total embedded value
Group					
Shareholders' equity at beginning of year	9,587	12,542	22,129	42,045	64,174
Demerger of UK and Europe operations	(4,676)	(6,513)	(11,189)	(3,342)	(14,531)
Shareholders' equity at beginning of year from continuing operations ^{note}	4,911	6,029	10,940	38,703	49,643
New business contribution ^{note 3}	(1,158)	899	(259)	4,664	4,405
Existing business – transfer to net worth	3,081	(613)	2,468	(2,468)	-
Expected return on existing business ^{note 4}	141	159	300	1,970	2,270
Changes in operating assumptions and experience variances ^{note 4}	558	103	661	309	970
Restructuring costs	(5)	-	(5)	-	(5)
Operating profit from continuing operations	2,617	548	3,165	4,475	7,640
Non-operating profit (loss) from continuing operations	(568)	262	(306)	(1,534)	(1,840)
Profit for the year from continuing operations	2,049	810	2,859	2,941	5,800
Foreign exchange movements	66	52	118	251	369
Intra-group dividends and investment in operations	(1,633)	-	(1,633)	-	(1,633)
Other movements	2	-	2	(2)	-
Shareholders' equity at end of year^{note}	5,395	6,891	12,286	41,893	54,179
Asia					
Shareholders' equity at beginning of year	2,202	2,904	5,106	25,879	30,985
New business contribution ^{note 3}	(619)	241	(378)	3,900	3,522
Existing business – transfer to net worth	1,914	(320)	1,594	(1,594)	-
Expected return on existing business ^{note 4}	80	67	147	1,395	1,542
Changes in operating assumptions and experience variances ^{note 4}	147	116	263	561	824
Operating profit based on longer-term investment returns	1,522	104	1,626	4,262	5,888
Non-operating profit	1,195	122	1,317	645	1,962
Profit for the year	2,717	226	2,943	4,907	7,850
Foreign exchange movements	66	52	118	251	369
Intra-group dividends and investment in operations	(1,108)	-	(1,108)	-	(1,108)
Other movements	(253)	-	(253)	-	(253)
Shareholders' equity at end of year	3,624	3,182	6,806	31,037	37,843
US					
Shareholders' equity at beginning of year	2,709	3,125	5,834	12,824	18,658
New business contribution ^{note 3}	(539)	658	119	764	883
Existing business – transfer to net worth	1,167	(293)	874	(874)	-
Expected return on existing business ^{note 4}	61	92	153	575	728
Changes in operating assumptions and experience variances ^{note 4}	411	(13)	398	(252)	146
Restructuring costs	(5)	-	(5)	-	(5)
Operating profit based on longer-term investment returns	1,095	444	1,539	213	1,752
Non-operating profit (loss)	(1,763)	140	(1,623)	(2,179)	(3,802)
Profit (loss) for the year	(668)	584	(84)	(1,966)	(2,050)
Intra-group dividends and investment in operations	(525)	-	(525)	-	(525)
Other movements	255	-	255	(2)	253
Shareholders' equity at end of year	1,771	3,709	5,480	10,856	16,336

Note

The net value of in-force business for continuing operations comprises the value of future margins from current in-force business less the cost of holding required capital for long-term business as shown below:

	31 Dec 2019 \$m			31 Dec 2018 \$m		
	Asia	US	Group total	Asia	US	Group total
Value of in-force business before deduction of cost of capital and time value of options and guarantees	32,396	11,417	43,813	27,849	15,043	42,892
Cost of capital	(866)	(370)	(1,236)	(721)	(377)	(1,098)
Time value of options and guarantees*	(493)	(191)	(684)	(1,249)	(1,842)	(3,091)
Net value of in-force business	31,037	10,856	41,893	25,879	12,824	38,703
Total net worth	6,806	5,480	12,286	5,106	5,834	10,940
Total embedded value	37,843	16,336	54,179	30,985	18,658	49,643

* The time value of options and guarantees (TVOG) arises from the variability of economic outcomes in the future and is, where appropriate, calculated as the difference between an average outcome across a range of economic scenarios, calibrated around a central scenario, and the outcome from one central economic scenario, as described in note 14(i)(d). The TVOG and the outcome from the central economic scenario are linked; as the central economic scenario is updated for market conditions and the outcome reflects more or less of the guaranteed benefit payouts and associated product charges, there will be consequential changes to the TVOG.

11 Analysis of movement in free surplus

For EEV covered business, free surplus is the excess of the regulatory basis net assets for EEV reporting purposes (total net worth) over the capital required to support the covered business. Where appropriate, adjustments are made to total net worth so that backing assets are included at fair value rather than at cost to comply with the EEV Principles. In the Group's Asia and US operations, assets deemed to be inadmissible on a local regulatory basis are included in net worth where considered recognisable on an EEV basis, with the exception of deferred tax assets in the US that are inadmissible under the local regulatory basis, which have been included in the value of in-force business (VIF) within the Group's EEV results. Free surplus for asset management and other operations (including assets and liabilities of the Group's central operations, the Group's treasury function and Africa operations) is taken to be IFRS basis post-tax earnings and shareholders' equity, net of goodwill attributable to shareholders, with subordinated debt recorded as free surplus to the extent that it is classified as available capital under the Group's capital regime. A reconciliation of EEV free surplus to the Group's Local Capital Summation Method (LCSM) surplus over Group minimum capital requirements is set out in note I(i) in the additional financial information.

	2019 \$m				Discontinued UK and Europe operations	Group total
	Continuing operations					
	Total insurance and asset management					
	Asia note (a)	US note (b)	Other note (e)			
Operating free surplus generated before impact of US EEV hedge modelling enhancements and restructuring costs	1,772	2,028	3,800	(923)		2,877
Impact of US EEV hedge modelling enhancements ^{note 7}	-	(903)	(903)	-		(903)
Operating free surplus generated before restructuring costs	1,772	1,125	2,897	(923)		1,974
Restructuring costs	(31)	(5)	(36)	(56)		(92)
Operating free surplus generated	1,741	1,120	2,861	(979)		1,882
Non-operating profit (loss) from continuing operations ^{note (f)}	1,195	(1,763)	(568)	(448)		(1,016)
Free surplus generated from discontinued operations ^{note (g)}	-	-	-	-	2,512	2,512
Free surplus generated in the year	2,936	(643)	2,293	(1,427)	2,512	3,378
Net cash flows paid to parent company ^{note (h)}	(950)	(525)	(1,475)	2,159	(684)	-
Demerger dividend in specie of M&G plc	-	-	-	-	(7,379)	(7,379)
External dividends	-	-	-	(1,634)	-	(1,634)
Foreign exchange movements on foreign operations, timing differences and other items ^{note (i)}	(357)	185	(172)	810	(426)	212
Net movement in free surplus	1,629	(983)	646	(92)	(5,977)	(5,423)
Balance at beginning of year	2,591	2,760	5,351	3,831	5,977	15,159
Balance at end of year^{note (i)}	4,220	1,777	5,997	3,739	-	9,736
Representing:						
Free surplus excluding distribution rights and other intangibles	3,624	1,753	5,377	1,227	-	6,604
Distribution rights and other intangibles	596	24	620	2,512	-	3,132
	4,220	1,777	5,997	3,739	-	9,736

	2018 \$m				Discontinued UK and Europe operations	Group total
	Continuing operations					
	Total insurance and asset management					
	Asia note (a)	US note (b)	Other			
Operating free surplus generated before restructuring costs	1,563	1,895	3,458	(969)		2,489
Restructuring costs	(25)	(23)	(48)	(15)		(63)
Operating free surplus generated	1,538	1,872	3,410	(984)		2,426
Non-operating loss from continuing operations ^{note (f)}	(525)	(1,124)	(1,649)	(29)		(1,678)
Free surplus generated from discontinued operations	-	-	-	-	2,624	2,624
Free surplus generated in the year	1,013	748	1,761	(1,013)	2,624	3,372
Net cash flows to parent company ^{note (h)}	(916)	(452)	(1,368)	2,259	(891)	-
External dividends	-	-	-	(1,662)	-	(1,662)
Foreign exchange movements, timing differences and other items ^{note (i)}	(847)	(144)	(991)	1,847	(58)	798
Net movement in free surplus	(750)	152	(598)	1,431	1,675	2,508
Balance at beginning of year	3,341	2,608	5,949	2,400	4,302	12,651
Balance at end of year	2,591	2,760	5,351	3,831	5,977	15,159
Representing:						
Free surplus excluding distribution rights and other intangibles	2,050	2,733	4,783	2,300	5,968	13,051
Distribution rights and other intangibles	541	27	568	1,531	9	2,108
	2,591	2,760	5,351	3,831	5,977	15,159

Notes

(a) Operating free surplus generated by Asia insurance and asset management operations before restructuring costs can be analysed as follows:

	2019 \$m		2018 \$m		% change	
			AER	CER	AER	CER
Operating free surplus generated from in-force life business	2,141		2,003	2,004	7%	7%
Investment in new business ^{note (c)}	(619)		(652)	(646)	5%	4%
Long-term business	1,522		1,351	1,358	13%	12%
Asset management	250		212	209	18%	20%
Total Asia	1,772		1,563	1,567	13%	13%

(b) Operating free surplus generated by US insurance and asset management operations before restructuring costs can be analysed as follows:

	2019 \$m	2018 \$m	% change
Operating free surplus generated from in-force life business before EEV hedge modelling enhancements ^{note (d)}	2,542	2,191	16%
Impact of EEV hedge modelling enhancements ^{note 7}	(903)	-	-
Operating free surplus generated from in-force life business	1,639	2,191	(25)%
Investment in new business ^{note (c)}	(539)	(300)	(80)%
Long-term business	1,100	1,891	(42)%
Asset management	25	4	525%
Total US	1,125	1,895	(41)%

- (c) Free surplus invested in new business primarily represents acquisition costs and amounts set aside for required capital.
- (d) The increase in the US in-force free surplus generation before the EEV hedge modelling enhancements described in note 7 includes a \$355 million benefit from the release of incremental reserves following the integration of the recently acquired John Hancock business.
- (e) Other operating free surplus generated for "other business" includes \$(145) million (2018: \$(103) million) of interest costs (net of tax) on debt that was substituted to M&G plc in October 2019.
- (f) Non-operating items include short-term fluctuations in investment returns, the effect of changes in economic assumptions for long-term business, the impact of NAIC reform, hedge modelling and other related changes in the US (as described in note 7) and the effect of corporate transactions (as described in note 9). In particular, for other business it includes \$(383) million for demerger costs (post-tax). In addition, for 2018 this included the impact in the US of changes to RBC factors following the US tax reform, which were formally approved by the NAIC in June 2018.
- (g) Free surplus generated from the discontinued UK and Europe operations in 2019 includes profit for the period of ownership up to the demerger in October 2019 and fair value adjustment at the date of the demerger.
- (h) Net cash flows to parent company for Asia operations reflect the flows as included in the holding company cash flow.
- (i) Foreign exchange movements, timing differences and other items represent:

	2019 \$m				Discontinued UK and Europe operations	Group total
	Continuing operations			Other		
	Asia	US	Total insurance and asset management			
Foreign exchange movements	99	-	99	91	77	267
Mark-to-market value movements on Jackson assets backing surplus and required capital	-	206	206	-	-	206
Other items (including intra-group loans and other intra-group transfers between operations and other non-cash items)*	(456)	(21)	(477)	719	(503)	(261)
	(357)	185	(172)	810	(426)	212

* The Group total for other items in 2019 included the effect of the redemption of \$0.5 billion of subordinated debt.

	2018 \$m				Discontinued UK and Europe operations	Group total
	Continuing operations			Other		
	Asia	US	Total insurance and asset management			
Foreign exchange movements	(67)	3	(64)	(170)	(377)	(611)
Mark-to-market value movements on Jackson assets backing surplus and required capital	-	(127)	(127)	-	-	(127)
Other items (including intra-group loans and other intra-group transfers between operations and other non-cash items)*	(780)	(20)	(800)	2,017	319	1,536
	(847)	(144)	(991)	1,847	(58)	798

* The Group total for other items in 2018 included the effect of the net issuance of \$1.5 billion of subordinated debt.

(j) Free surplus from continuing operations at 31 December 2019 represents:

	2019 \$m				Group total
	Asia	US	Total insurance and asset management	Other	
Long-term business	3,624	1,771	5,395	-	5,395
Asset management and other	596	6	602	3,739	4,341
Total	4,220	1,777	5,997	3,739	9,736

12 Expected transfer of value of in-force business and required capital to free surplus

The discounted value of in-force business and required capital for the Group's continuing long-term business operations can be reconciled to the 2019 and 2018 total emergence of free surplus as follows:

	31 Dec 2019 \$m	31 Dec 2018 \$m
Required capital ^{note 10}	6,891	6,029
Value of in-force business (VIF) ^{note 10}	41,893	38,703
Other items*	205	1,915
Total continuing long-term business operations	48,989	46,647

* 'Other items' represent the impact of the time value of options and guarantees and amounts incorporated into VIF where there is no definitive timeframe for when the payments will be made or receipts received. These items are excluded from the expected free surplus generation profile below.

Cash flows are projected on a deterministic basis and are discounted at the appropriate risk discount rate. The modelled cash flows use the same methodology underpinning the Group's EEV reporting and so are subject to the same assumptions and sensitivities.

The table below shows how the VIF generated by the in-force business and the associated required capital for the Group's continuing long-term business operations is modelled as emerging into free surplus over future years.

	2019 total as shown above	31 Dec 2019 \$m					
		Expected period of conversion of future post-tax distributable earnings and required capital flows to free surplus					
		1-5 years	6-10 years	11-15 years	16-20 years	21-40 years	40+ years
Asia	34,295	8,561	6,335	4,394	3,398	7,715	3,892
US	14,694	6,408	4,735	2,424	825	302	-
Group total	48,989	14,969	11,070	6,818	4,223	8,017	3,892
	100%	30%	23%	14%	9%	16%	8%

	2018 total as shown above	31 Dec 2018 \$m					
		Expected period of conversion of future post-tax distributable earnings and required capital flows to free surplus from continuing long-term operations					
		1-5 years	6-10 years	11-15 years	16-20 years	21-40 years	40+ years
Asia	29,715	7,993	5,330	3,518	2,615	6,876	3,383
US	16,932	8,824	5,214	2,256	481	157	-
Group total	46,647	16,817	10,544	5,774	3,096	7,033	3,383
	100%	36%	23%	12%	7%	15%	7%

13 Sensitivity of results to alternative assumptions

(i) Sensitivity analysis – economic assumptions

The tables below show the sensitivity of the embedded value as at 31 December 2019 and 31 December 2018 and the new business contribution for 2019 and 2018 for continuing long-term business to:

- 1 per cent increase in the discount rates;
- 1 per cent increase in interest rates, including consequential changes in assumed investment returns for all asset classes, market values of fixed interest assets and risk discount rates (but excluding changes in the allowance for market risk);
- 0.5 per cent decrease in interest rates, including consequential changes in assumed investment returns for all asset classes, market values of fixed interest assets and risk discount rates (but excluding changes in the allowance for market risk);
- 1 per cent rise in equity and property yields;
- 10 per cent fall in market value of equity and property assets (embedded value only); and
- The Group minimum capital requirements under the LCSM in contrast to EEV basis required capital (embedded value only).

The sensitivities shown below are for the impact of instantaneous (and permanent) changes on the embedded value of long-term business operations and include the combined effect on the value of in-force business and net assets (including derivatives) held at the valuation dates indicated. The results only allow for limited management actions such as changes to future policyholder bonuses where applicable. If such economic conditions persisted, the financial impacts may differ to the instantaneous impacts shown below. In this case management could also take additional actions to help mitigate the impact of these stresses. No change in the assets held at the valuation date is assumed when calculating sensitivities. If the changes in assumptions shown in the sensitivities were to occur, the effect shown below would be recorded within two components of the profit analysis for the following year, namely the effect of changes in economic assumptions and short-term fluctuations in investment returns. In addition, for changes in interest rates, the effect shown below for the US (Jackson) would also be recorded within mark-to-market value movements on Jackson assets backing surplus and required capital, which are taken directly to shareholders' equity. In addition to the sensitivity effects shown below, the other components of the profit for the following year would be calculated by reference to the altered assumptions, for example new business contribution and unwind of discount and other expected returns, together with the effect of other changes such as altered corporate bond spreads.

New business contribution from continuing long-term business

	2019 \$m			2018 \$m		
	Asia	US	Group total	Asia	US	Group total
New business contribution ^{note 3}	3,522	883	4,405	3,477	1,230	4,707
Discount rates – 1% increase	(715)	(22)	(737)	(733)	(56)	(789)
Interest rates and consequential effects – 1% increase	(46)	207	161	(270)	126	(144)
Interest rates and consequential effects – 0.5% decrease	(121)	(123)	(244)	77	(88)	(11)
Equity/property yields – 1% rise	210	70	280	174	154	328

Embedded value of continuing long-term business

	31 Dec 2019 \$m			31 Dec 2018 \$m		
	Asia	US	Group total	Asia	US	Group total
Shareholders' equity ^{note 10}	37,843	16,336	54,179	30,985	18,658	49,643
Discount rates – 1% increase	(5,263)	(509)	(5,772)	(4,193)	(653)	(4,846)
Interest rates and consequential effects – 1% increase	(1,408)	798	(610)	(1,992)	152	(1,840)
Interest rates and consequential effects – 0.5% decrease	(28)	(686)	(714)	466	(348)	118
Equity/property yields – 1% rise	1,758	556	2,314	1,326	1,288	2,614
Equity/property market values – 10% fall	(810)	(1,205)	(2,015)	(602)	(634)	(1,236)
Group minimum capital requirements	175	221	396	140	276	416

The directional movements in the sensitivities from 31 December 2018 to 31 December 2019 reflect the generally lower government bond yields and higher equity markets at 31 December 2019, and the actual hedging portfolio in place at both valuation dates, which varies due to the nature of Jackson's dynamic hedging programme.

(ii) Sensitivity analysis – non-economic assumptions

The tables below show the sensitivity of the embedded value as at 31 December 2019 and 31 December 2018 and the new business contribution for 2019 and 2018 for continuing long-term business operations to:

- 10 per cent proportionate decrease in maintenance expenses (for example, a 10 per cent sensitivity on a base assumption of \$10 per annum would represent an expense assumption of \$9 per annum);
- 10 per cent proportionate decrease in lapse rates (for example, a 10 per cent sensitivity on a base assumption of 5.0 per cent would represent a lapse rate of 4.5 per cent per annum); and
- 5 per cent proportionate decrease in base mortality (ie increased longevity) and morbidity rates.

New business contribution from continuing long-term business operations

	2019 \$m			2018 \$m		
	Asia	US	Group total	Asia	US	Group total
New business contribution ^{note 3}	3,522	883	4,405	3,477	1,230	4,707
Maintenance expenses – 10% decrease	67	15	82	53	15	68
Lapse rates – 10% decrease	211	24	235	206	32	238
Mortality and morbidity – 5% decrease	116	(2)	114	93	5	98

Embedded value of continuing long-term business operations

	31 Dec 2019 \$m			31 Dec 2018 \$m		
	Asia	US	Group total	Asia	US	Group total
Shareholders' equity ^{note 10}	37,843	16,336	54,179	30,985	18,658	49,643
Maintenance expenses – 10% decrease	411	200	611	323	227	550
Lapse rates – 10% decrease	1,459	624	2,083	1,238	788	2,026
Mortality and morbidity – 5% decrease	1,323	94	1,417	1,063	180	1,243
Change representing effect on:						
Life business	1,323	168	1,491	1,063	250	1,313
Annuities	-	(74)	(74)	-	(70)	(70)

14 Methodology and accounting presentation

(i) Methodology

(a) Covered business

The EEV basis results for the Group are prepared for 'covered business' as defined by the EEV Principles. Covered business represents the Group's long-term insurance business (including the Group's investments in joint venture and associate insurance operations), for which the value of new and in-force contracts is attributable to shareholders.

The EEV basis results for the Group's covered business are then combined with the post-tax IFRS basis results of the Group's asset management and other operations (including interest costs on core structural borrowings, corporate expenditure for head office functions in London and Hong Kong, the Group's treasury function and Africa operations). Under the EEV Principles, the results for covered business incorporate the projected margins of attaching internal asset management, as described in note (g) below.

The definition of long-term insurance business comprises those contracts falling under the definition for regulatory purposes together with, for US operations, contracts that are in substance the same as guaranteed investment contracts (GICs) but do not fall under the technical definition.

(b) Valuation of in-force and new business

The EEV basis results are prepared incorporating best estimate assumptions about all relevant factors including levels of future investment returns, persistency, mortality, morbidity and expenses, as described in note 15(iii). These assumptions are used to project future cash flows. The present value of the projected future cash flows is then calculated using a discount rate, as shown in note 15(i), which reflects both the time value of money and all other non-diversifiable risks associated with the cash flows that are not otherwise allowed for.

New business

In determining the EEV basis value of new business, premiums are included in projected cash flows on the same basis of distinguishing regular and single premium business as set out in the Group's new business sales reporting.

New business premiums reflect those premiums attaching to the covered business, including premiums for contracts classified as investment contracts under IFRS. New business premiums for regular premium products are shown on an annualised basis.

New business contribution represents profit determined by applying operating and economic assumptions as at the end of the period. New business profitability is a key metric for the Group's management of the development of the business. In addition, new business margins are shown by reference to annual premium equivalents (APE) and the present value of new business premiums (PVNBP). These margins are calculated as the percentage of the value of new business profit to APE and PVNBP. APE is calculated as the aggregate of regular premiums on new business written in the period and one-tenth of single premiums. PVNBP is calculated as the aggregate of single premiums and the present value of expected future premiums from regular premium new business, allowing for lapses and the other assumptions made in determining the EEV new business contribution.

Valuation movements on investments

With the exception of debt securities held by Jackson, investment gains and losses during the year (to the extent that changes in capital values do not directly match changes in liabilities) are included directly in the profit for the year and shareholders' equity as they arise.

The results for any covered business conceptually reflect the aggregate of the post-tax IFRS basis results and the movements in the additional shareholders' interest recognised on an EEV basis. Therefore, the start point for the calculation of the EEV basis results for Jackson, as for other businesses, reflects the market value movements recognised on an IFRS basis.

In determining the movements in the additional shareholders' interest, for Jackson's debt securities backing liabilities, the aggregate EEV basis results reflect the fact that the value of in-force business incorporates the discounted value of expected future spread earnings. This value is generally not affected by short-term market movements in debt securities that, broadly speaking, are held for the longer term. Consequently, within EEV total net worth, Jackson's debt securities backing liabilities are held on a statutory basis (largely at book value), while those backing surplus and required capital are accounted for at fair value. Consistent with the treatment applied under IFRS, for Jackson's debt securities classified as available-for-sale, movements in unrealised appreciation and depreciation on these securities are accounted for directly in equity rather than in the income statement, as shown in 'Mark-to-market value movements on Jackson assets backing surplus and required capital' in the statement of movement in shareholders' equity.

(c) Cost of capital

A charge is deducted from the embedded value for the cost of locked-in required capital supporting the Group's long-term business. The cost is the difference between the nominal value of the capital held and the discounted value of the projected releases of this capital, allowing for post-tax investment earnings on the capital.

The EEV results are affected by the movement in this cost from year to year, which comprises a charge against new business profit and generally a release in respect of the reduction in capital requirements for business in force as this runs off.

Where required capital is held within a with-profits long-term fund, the value placed on surplus assets within the fund is already adjusted to reflect its expected release over time and so no further adjustment to the shareholder position is necessary.

(d) Financial options and guarantees

Nature of financial options and guarantees in Prudential's long-term business

Asia

Participating products in Asia, principally written in Hong Kong, Singapore and Malaysia, have both guaranteed and non-guaranteed elements. These products provide returns to policyholders through bonuses that are smoothed. There are two types of bonuses: regular and final. Regular bonuses are declared once a year and, once credited, are guaranteed in accordance with the terms of the particular products. Final bonuses are guaranteed only until the next bonus declaration.

There are also various non-participating long-term products with guarantees. The principal guarantees are those for whole-of-life contracts with floor levels of policyholder benefits that accrue at rates set at inception and do not vary subsequently with market conditions.

US (Jackson)

The principal financial options and guarantees in Jackson are associated with the variable annuity and fixed annuity lines of business.

Jackson issues variable annuity contracts for which it contractually guarantees to the contract holder, subject to specific conditions, either: a) a return of no less than total deposits made to the contract, adjusted for any partial withdrawals; b) total deposits made to the contract, adjusted for any partial withdrawals plus a minimum return; or c) the highest contract value on a specified anniversary date, adjusted for any withdrawals following the specified contract anniversary. These guarantees include benefits that are payable upon depletion of funds (Guaranteed Minimum Withdrawal Benefits (GMWB)) or as death benefits (Guaranteed Minimum Death Benefits (GMDB)). These guarantees generally protect the policyholder's contract value in the event of poor equity market performance. Jackson hedges the GMWB and GMDB guarantees through the use of equity options and futures contracts, with an expected long-term future hedging cost allowed for within the EEV value of in-force business to reflect the equity options and futures expected to be held based on the Group's current dynamic hedging programme and consideration of past practice. This allowance was re-estimated in 2019 following the NAIC reform for variable annuity business, as described in note 7. Jackson also historically issued a small amount of income benefits (Guaranteed Minimum Income Benefits (GMIB)), which are now materially fully reinsured.

Fixed annuities provide that at Jackson's discretion it may reset the interest rate credited to policyholders' accounts, subject to a guaranteed minimum return, depending on the particular product, jurisdiction where issued and the date of issue.

Jackson also issues fixed index annuities that enable policyholders to obtain a portion of an equity-linked return while providing a guaranteed minimum return, which is of a similar nature to those for fixed annuities.

Time value

The value of financial options and guarantees comprises the intrinsic value (arising from a deterministic valuation on best estimate assumptions) and the time value (arising from the variability of economic outcomes in the future).

Where appropriate, a full stochastic valuation has been undertaken to determine the time value of financial options and guarantees. The economic assumptions used for the stochastic calculations are consistent with those used for the deterministic calculations. Assumptions specific to the stochastic calculations reflect local market conditions and are based on a combination of actual market data, historic market data and an assessment of long-term economic conditions. Common principles have been adopted across the Group for the stochastic asset models, for example, separate modelling of individual asset classes with an allowance for correlations between various asset classes. Details of the key characteristics of each model are given in note 15(ii).

In deriving the time value of financial options and guarantees, management actions in response to emerging investment and fund solvency conditions have been modelled. Management actions encompass, but are not confined to, investment allocation decisions, levels of regular and final bonuses and credited rates. Bonus rates are projected from current levels and varied in accordance with assumed management actions applying in the emerging investment and fund solvency conditions. In all instances, the modelled actions are in accordance with approved local practice and therefore reflect the options available to management.

The time value of financial options and guarantees reflects how the market value of the assets (including derivatives) held to manage the liability portfolios are expected to vary across the range of economic scenarios considered. For instance, in some economic scenarios the derivative portfolio may project gains in excess of the cost of the underlying guarantees on an EEV basis.

If the calculation of the time value of options and guarantees results in a positive outcome for a particular product (for example for variable annuity business in the US at 31 December 2019) then the figure is capped at zero, reflecting the strong interaction between the outcome of the central economic scenario and the time value of financial options and guarantees in these circumstances, and the reported value of in-force business before deduction of cost of capital and time value of options and guarantees will reflect the outcome from the full stochastic valuation.

(e) Level of required capital

In adopting the EEV Principles, Prudential has based required capital on the applicable local statutory regulations, including any amounts considered to be required above the local statutory minimum requirements to satisfy regulatory constraints.

For shareholder-backed businesses, the following capital requirements for long-term business apply:

- Asia: the level of required capital has been set to an amount at least equal to local statutory notification requirements. For China JV life operations, the level of required capital follows the approach for embedded value reporting issued by the China Association of Actuaries (CAA) reflecting the C-ROSS regime; and
- US: the level of required capital has been set at 250 per cent of the risk-based capital (RBC) required by the National Association of Insurance Commissioners (NAIC) at the Company Action Level (CAL).

(f) With-profits business and the treatment of the estate

For the Group's relevant Asia operations, the proportion of surplus allocated to shareholders from the with-profits funds has been based on the applicable profit distribution between shareholders and policyholders. The EEV methodology includes the value attributed to the shareholders' interest in the residual estate of the in-force with-profits business. In any scenarios where the total assets of the life fund are insufficient to meet policyholder claims in full, the excess cost is fully attributed to shareholders. As required, adjustments are also made to reflect any capital requirements for with-profits business in Asia in excess of the available capital of the with-profits funds.

(g) Internal asset management

The in-force and new business results from long-term business include the projected future profit or loss from asset management and service companies that support the Group's covered insurance businesses. The results of the Group's asset management operations include the current period profit from the management of both internal and external funds. EEV basis shareholders' other income and expenditure is adjusted to deduct the unwind of the expected margins on the internal management of the assets of the life funds for the period as included in 'Other' operations. The deduction is on a basis consistent with that used for projecting the results for covered insurance business. Accordingly, Group operating profit includes the variance between the actual and expected profit margin in respect of the management of the assets for the covered business.

(h) Allowance for risk and risk discount rates

Overview

Under the EEV Principles, discount rates used to determine the present value of expected future cash flows are set by reference to risk-free rates plus a risk margin.

The risk-free rates are based on local government bond yields at the valuation date and are generally assumed to remain constant throughout the projection.

The risk margin reflects any non-diversifiable risk associated with the emergence of distributable earnings that is not allowed for elsewhere in the valuation. In order to better reflect differences in relative market risk volatility inherent in each product group, Prudential sets the risk discount rates to reflect the expected volatility associated with the expected future cash flows for each product group in the embedded value model, rather than at a Group level.

Since financial options and guarantees are explicitly valued under the EEV methodology, risk discount rates exclude the effect of these product features.

The risk margin represents the aggregate of the allowance for market risk, additional allowance for credit risk where appropriate, and allowance for non-diversifiable non-market risk. No allowance is required for non-market risks where these are assumed to be fully diversifiable.

Market risk allowance

The allowance for market risk represents the beta multiplied by an equity risk premium.

The beta of a portfolio or product measures its relative market risk. The risk discount rates reflect the market risk inherent in each product group and hence the volatility of product-specific cash flows. These are determined by considering how the profit from each product is affected by changes in expected returns on various asset classes. By converting this into a relative rate of return, it is possible to derive a product-specific beta.

Product level betas reflect the product mix at the valuation date to produce appropriate betas and risk discount rates for each major product group.

In 2019, the Group reconsidered the application of this methodology for certain Asia businesses to reflect a more granular assessment of the underlying market risks when determining the beta, alongside other refinements. These refinements resulted in the change in the risk discount rate for Vietnam shown in note 15(i)(a), and had an impact of \$67 million via the effect of change in economic assumptions in note 6. There were small consequential effects on new business contribution and in-force operating profit, which were overall not material in the context of the Group's results.

Additional credit risk allowance

The Group's methodology allows for credit risk. The total allowance for credit risk is to cover expected long-term defaults, credit risk premium (to reflect the volatility in downgrade and default levels) and short-term downgrades and defaults.

These allowances are initially reflected in determining best estimate returns and through the market risk allowance described above. However, for those businesses largely backed by holdings of debt securities, these allowances in the projected returns and market risk allowances may not be sufficient and an additional allowance may be appropriate.

The practical application of the allowance for credit risk varies depending on the type of business as described below:

Asia

For Asia, the allowance for credit risk incorporated in the projected rates of return and the market risk allowance is considered to be sufficient. Accordingly, no additional allowance for credit risk is required.

The projected rates of return for holdings of corporate bonds comprise the risk-free rate plus an assessment of long-term spread over the risk-free rate.

US (Jackson)

For Jackson, the allowance for long-term defaults of 0.17 per cent at 31 December 2019 (31 December 2018: 0.17 per cent) is reflected in the risk margin reserve charge that is deducted in determining the projected spread margin between the earned rate on the investments and the policyholder crediting rate.

The risk discount rate incorporates an additional allowance for credit risk premium and short-term downgrades and defaults, as shown in note 15(i)(b). In determining this allowance, a number of factors have been considered, in particular including:

- How much of the credit spread on debt securities represents an increased short-term credit risk not reflected in the risk margin reserve long-term default assumptions and how much is liquidity premium (which is the premium required by investors to compensate for the risk of longer-term investments that cannot be easily converted into cash at the fair market value). In assessing this effect, consideration has been given to a number of approaches to estimate the liquidity premium by considering recent statistical data; and
- Policyholder benefits for Jackson fixed annuity business are not fixed. It is possible, in adverse economic scenarios, to pass on a component of credit losses to policyholders (subject to guarantee features), through lower investment returns credited to policyholders. Consequently, it is only necessary to allow for the balance of the credit risk in the risk discount rate.

The level of the additional allowance is assessed at each reporting period to take account of prevailing credit conditions and as the business in force alters over time. The additional allowance for variable annuity business has been set at one-fifth of the non-variable annuity business to reflect the proportion of the allocated holdings of general account debt securities.

Allowance for non-diversifiable non-market risks

The majority of non-market and non-credit risks are considered to be diversifiable. An allowance for non-diversifiable non-market risks is estimated as set out below.

A base level allowance of 50 basis points is applied to cover the non-diversifiable non-market risks associated with the Group's covered business. For the Group's businesses in less mature markets (such as the Philippines and Thailand), additional allowances are applied for emerging market risk ranging from 100 to 250 basis points. The level and application of these allowances are reviewed and updated based on an assessment of the Group's exposure and experience in the markets. During 2019, the allowance for emerging market risk was removed for Indonesia, Taiwan and Vietnam reflecting the growth in the size of the businesses and increasing management exposure and experience in the local markets. For the Group's business in more mature markets, no additional allowance is necessary.

(i) Foreign currency translation

Foreign currency profits and losses have been translated at average exchange rates for the year. Foreign currency transactions are translated at the spot rate prevailing at the date of the transactions. This includes external dividends paid to shareholders.

Prudential will determine and declare its dividend in US dollars commencing with dividends paid in 2020, including the 2019 second interim dividend. Foreign currency assets and liabilities have been translated at closing exchange rates. The principal exchange rates are shown in note A1 of the Group IFRS financial statements.

(j) Taxation

In determining the post-tax profit for the year for covered business, the overall tax rate includes the impact of tax effects determined on a local regulatory basis. Tax payments and receipts included in the projected future cash flows to determine the value of in-force business are calculated using tax rates that have been announced and substantively enacted by the end of the reporting period.

(ii) Accounting presentation

(a) Analysis of post-tax profit

To the extent applicable, the presentation of the EEV basis profit or loss for the year is consistent with the classification between operating and non-operating results that the Group applies for the analysis of IFRS basis results. Operating results are determined as described in note (b) below and incorporate the following:

- New business contribution, as defined in note (i)(b) above;
- Unwind of discount on the value of in-force business and other expected returns, as described in note (c) below;
- The impact of routine changes of estimates relating to operating assumptions, as described in note (d) below; and
- Operating experience variances, as described in note (e) below.

In addition, operating results include the effect of changes in tax legislation, unless these changes are one-off and structural in nature or primarily affect the level of projected investment returns, in which case they are reflected as a non-operating result.

Non-operating results comprise:

- Short-term fluctuations in investment returns;
- Mark-to-market value movements on core structural borrowings;
- Effect of changes in economic assumptions;
- Impact of NAIC reform, hedge modelling and other related changes in the US; and
- The impact of corporate transactions undertaken in the year.

Total profit or loss in the year attributable to shareholders and basic earnings per share include these items, together with actual investment returns. The Group believes that operating profit, as adjusted for these items, better reflects underlying performance.

(b) Investment returns included in operating profit

For the investment element of the assets covering the total net worth of long-term insurance business, investment returns are recognised in operating results at the expected long-term rates of return. These expected returns are calculated by reference to the asset mix of the portfolio.

For the purpose of determining the long-term returns for debt securities of Jackson for fixed annuity and other general account business, a risk margin reserve charge is included, which reflects the expected long-term rate of default based on the credit quality of the portfolio. For Jackson, interest-related realised gains and losses are amortised to the operating results over the maturity period of the sold bonds; for equity-related investments, a long-term rate of return is assumed (as disclosed in note 15(i)(b)), which reflects the aggregation of risk-free rates and the equity risk premium at the end of the reporting period. For variable annuity separate account business, operating profit includes the unwind of discount on the opening value of in-force business adjusted to reflect projected rates of return at the end of the reporting period, with the excess or deficit of the actual return recognised within non-operating results, together with related hedging activity variances.

(c) Unwind of discount and other expected returns

The Group's methodology in determining the unwind of discount and other expected returns is by reference to the value of in-force business at the beginning of the year (adjusted for the effect of changes in economic and operating assumptions in the current year) and required capital and surplus assets.

(d) Effect of changes in operating assumptions

Operating profit includes the effect of changes to non-economic assumptions on the value of in-force business at the end of the reporting period. For presentational purposes the effect of changes is delineated to show the effect on the opening value of in-force business as operating assumption changes, with the experience variances subsequently being determined by reference to the assumptions at the end of the reporting period, as discussed below.

(e) Operating experience variances

Operating profit includes the effect of experience variances on non-economic assumptions, such as persistency, mortality, morbidity, expenses and other factors, which are calculated with reference to the assumptions at the end of the reporting period.

(f) Effect of changes in economic assumptions

Movements in the value of in-force business at the beginning of the year caused by changes in economic assumptions, net of the related changes in the time value of financial options and guarantees, are recorded in non-operating results.

15 Assumptions

(i) Principal economic assumptions

The EEV basis results for the Group's covered business have been determined using economic assumptions where both the long-term expected rates of return on investments and risk discount rates are set by reference to risk-free rates of return at the end of the reporting period. The risk-free rates of return are based on local government bond yields, which are generally assumed to remain constant throughout the projection, and are shown below for each of the Group's insurance operations. Expected returns on equity and property asset classes and corporate bonds are derived by adding a risk premium to the risk-free rate based on the Group's long-term view. In the majority of business units, equity risk premiums were increased during 2019 by 25 basis points from those applied at 2018. The related expected return on equity assets and risk discount rates have been increased accordingly. As described in note 14(i)(h), the resulting risk discount rates incorporate allowances for market risk, additional credit risk and non-diversifiable non-market risks appropriate to the features and risks of the underlying products and markets, after considering risks allowed for explicitly elsewhere in the EEV basis, such as cost of capital and the time value of the cost of options and guarantees.

The total profit that emerges over the lifetime of an individual contract as calculated under the EEV basis is the same as that calculated under the IFRS basis. Since the EEV basis reflects discounted future cash flows, under the EEV methodology the profit emergence is advanced, thus more closely aligning the timing of the recognition of profit with the efforts and risks of current management actions, particularly with regard to business sold during the year.

(a) Asia^{notes(2)(3)}

	Risk discount rate %				Government bond yield %		Expected long-term inflation %	
	New business		In-force business		31 Dec	31 Dec	31 Dec	31 Dec
	2019	31 Dec 2018	2019	31 Dec 2018	2019	2018	2019	2018
China JV	8.2	8.1	8.2	8.1	3.2	3.3	3.0	3.0
Hong Kong ^{notes (2)(4)}	3.7	4.4	3.7	4.4	1.9	2.7	2.5	2.5
Indonesia	10.8	12.4	10.8	12.4	7.2	8.2	4.5	4.5
Malaysia ^{note (4)}	5.8	6.6	5.9	6.6	3.3	4.1	2.5	2.5
Philippines	12.3	14.5	12.3	14.5	4.6	7.0	4.0	4.0
Singapore ^{note (4)}	3.3	3.4	3.9	4.2	1.7	2.1	2.0	2.0
Taiwan	3.4	4.5	3.0	4.4	0.7	0.9	1.5	1.5
Thailand	9.2	10.0	9.2	10.0	1.5	2.5	3.0	3.0
Vietnam	5.3	12.6	5.5	12.6	3.4	5.1	5.5	5.5
Total weighted average ^{note (1)}	4.9	5.4	4.9	5.8				

Notes

- (1) Total weighted average risk discount rates for Asia shown above have been determined by weighting each business's risk discount rates by reference to the EEV basis new business contribution and the net closing value of in-force business. The changes in the risk discount rates for individual Asia businesses reflect the movements in the local government bond yields, changes in the equity risk premiums, changes in the allowance for market risk as described in note 14(i)(h) and changes in product mix.
- (2) For Hong Kong, the assumptions shown are for US dollar denominated business. For other businesses, the assumptions shown are for local currency denominated business.
- (3) Equity risk premiums (geometric) in Asia range from 2.9 per cent to 4.8 per cent (31 December 2018: 2.6 per cent to 4.5 per cent).
- (4) The geometric equity return assumptions for the most significant equity holdings of the Asia businesses are:

	31 Dec 2019 %	31 Dec 2018 %
Hong Kong (US dollar denominated business)	4.8	5.3
Malaysia	7.3	7.9
Singapore	5.7	5.8

(b) US

	31 Dec 2019 %	31 Dec 2018 %
Risk discount rate:		
Variable annuity:		
Risk discount rate	6.5	7.1
Additional allowance for credit risk included in risk discount rate ^{note 14(i)(h)}	0.2	0.2
Non-variable annuity:		
Risk discount rate	3.7	4.4
Additional allowance for credit risk included in risk discount rate ^{note 14(i)(h)}	1.0	1.0
Total weighted average:		
New business	6.1	6.9
In-force business	6.2	6.8
Allowance for long-term defaults included in projected spread ^{note 14(i)(h)}	0.17	0.17
US 10-year treasury bond yield	1.9	2.7
Equity risk premium (geometric)	2.9	2.6
Pre-tax expected long-term nominal rate of return for US equities (geometric)	4.8	5.3
Expected long-term rate of inflation	2.9	2.9
S&P 500 equity return volatility ^{note (ii)(b)}	17.5	17.5

Note

Assumed new business spread margins are as follows:

	2019 %		2018 %	
	January to June issues	July to December issues	January to June issues	July to December issues
Fixed annuity business*	1.50	0.85	1.75	1.75
Fixed index annuity business**	0.50	0.50	2.00	2.00
Institutional business	0.50	0.50	0.50	0.50

* Including the proportion of variable annuity business invested in the general account. The assumed spread margin grades up linearly by 25 basis points to a long-term assumption over five years.

**The assumed spread margin grades up linearly by 100 basis points over five years, increasing by a further 50 basis points to a long-term assumption at the end of the index option period (2018 issues: grades up linearly by 25 basis points to a long-term assumption over five years).

(ii) Stochastic assumptions

Details are given below of the key characteristics of the models used to determine the time value of financial options and guarantees as referred to in note 14(i)(d).

(a) Asia

- The stochastic cost of guarantees is primarily of significance for the Hong Kong, Malaysia, Singapore, Taiwan and Vietnam businesses;
- The principal asset classes are government bonds, corporate bonds and equity;
- Interest rates are projected using a stochastic interest rate model calibrated to the current market yields;
- Equity returns are assumed to follow a log-normal distribution;
- The corporate bond return is calculated based on a risk-free return plus a mean-reverting spread;
- The volatility of equity returns ranges from 18 per cent to 35 per cent for both years; and
- The volatility of government bond yields ranges from 1.1 per cent to 2.0 per cent for both years.

(b) US (Jackson)

- Interest rates and equity returns are projected using a log-normal generator reflecting historical market data;
- Corporate bond returns are based on treasury yields plus a spread that reflects current market conditions;
- The volatility of equity returns ranges from 17 per cent to 26 per cent for both years; and
- The standard deviation of interest rates ranges from 3.1 per cent to 3.3 per cent (2018: from 3.4 per cent to 3.7 per cent).

(iii) Operating assumptions

Best estimate assumptions are used for projecting future cash flows, where best estimate is defined as the mean of the distribution of future possible outcomes. The assumptions are reviewed actively and changes are made when evidence exists that material changes in future experience are reasonably certain.

Assumptions required in the calculation of the time value of financial options and guarantees, for example relating to volatilities and correlations, or dynamic algorithms linking liabilities to assets, have been set equal to the best estimates and, wherever material and practical, reflect any dynamic relationships between the assumptions and the stochastic variables.

Demographic assumptions

Persistency, mortality and morbidity assumptions are based on an analysis of recent experience, and reflect expected future experience. Where relevant, when calculating the time value of financial options and guarantees, policyholder withdrawal rates vary in line with the emerging investment conditions according to management's expectations. When projecting future cash flows for medical reimbursement business that is repriced annually, explicit allowance is made for expected future premium inflation and separately for future medical claims inflation.

Expense assumptions

Expense levels, including those of the service companies that support the Group's long-term business, are based on internal expense analysis and are appropriately allocated to acquisition of new business and renewal of in-force business. For mature business, it is Prudential's policy not to take credit for future cost reduction programmes until the actions to achieve the savings have been delivered. An allowance is made for short-term required expenses that are not representative of the longer-term expense loadings of the relevant businesses. At 31 December 2019 the allowance held for these costs across the Group was \$313 million, mainly arising in Asia. Expense overruns are reported where these are expected to be short-lived, including businesses that are growing rapidly or are sub-scale.

For Asia, expenses comprise costs borne directly and costs recharged from the Group head office function in Hong Kong that are attributable to the covered business. The assumed future expenses for these businesses also include projections of these future recharges. Development expenses are allocated to Asia covered business and are charged as incurred.

Corporate expenditure, which is included in other income and expenditure, comprises expenditure of the Group head office function in Hong Kong that is not allocated to the covered business or asset management, primarily for corporate related activities that are charged as incurred, and expenditure of the Group head office function in London, together with restructuring costs incurred across the Group.

Tax rates

The assumed long-term effective tax rates for operations reflect the expected incidence of taxable profit and loss in the projected future cash flows as explained in note 14(i)(j). Except for the change in China JV effective tax rate as discussed in note 4, there has been no change in the effective tax rates applied for projecting future cash flows.

16 Insurance new business

Continuing operations:	Single premiums		Regular premiums		Annual premium equivalents (APE)		Present value of new business premiums (PVNBP)	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Asia								
Cambodia	-	-	24	26	24	26	111	119
Hong Kong	387	458	1,977	2,222	2,016	2,266	12,815	13,619
Indonesia	292	274	361	287	390	315	1,668	1,215
Malaysia	209	112	333	324	355	335	2,090	1,765
Philippines	51	57	153	111	158	117	561	395
Singapore	1,217	1,242	539	493	660	617	4,711	4,821
Thailand	192	290	140	127	159	156	763	813
Vietnam	22	27	215	192	217	195	1,342	946
South-east Asia including Hong Kong	2,370	2,460	3,742	3,782	3,979	4,027	24,061	23,693
China JV ^{note (b)}	710	138	518	390	590	403	2,586	1,753
Taiwan	544	389	278	243	332	282	1,418	1,052
India ^{note (c)}	155	105	245	276	260	287	1,179	1,213
Total Asia	3,779	3,092	4,783	4,691	5,161	4,999	29,244	27,711
US								
Variable annuities	12,692	14,433	-	-	1,270	1,443	12,692	14,434
Elite Access (variable annuity)	2,002	2,245	-	-	200	225	2,002	2,244
Fixed annuities	1,194	454	-	-	119	46	1,194	454
Fixed index annuities	3,821	335	-	-	382	33	3,821	335
Institutional	2,522	3,126	-	-	252	312	2,522	3,126
Total US	22,231	20,593	-	-	2,223	2,059	22,231	20,593
Group total^{note (d)}	26,010	23,685	4,783	4,691	7,384	7,058	51,475	48,304

Notes

- (a) The tables shown above are provided as an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profit for shareholders. The amounts shown are not, and not intended to be, reflective of premium income recorded in the Group IFRS income statement.
- (b) New business in China JV is included at Prudential's 50 per cent interest in the joint venture.
- (c) New business in India is included at Prudential's interest in the associate (with effect from 27 March 2019: 22 per cent; 2018: 26 per cent).
- (d) In 2019, the Africa business sold new business APE of \$82 million (2018: \$51 million on an actual exchange rate basis, \$47 million on a constant exchange rate basis). Given the relative immaturity of the Africa business, it is incorporated into the Group's EEV basis results on an IFRS basis and is excluded from new business sales and profit metrics.

Additional EEV financial information*

A New business schedules

Basis of preparation

The format of the schedules is consistent with the distinction between insurance and investment products as applied for previous reporting periods. With the exception of some US institutional business, products categorised as 'insurance' refer to those classified as contracts of long-term insurance business for local regulatory reporting purposes.

The details shown for insurance products include contributions for contracts that are classified under IFRS 4, 'Insurance Contracts', as not containing significant insurance risk. These products are described as investment contracts or other financial instruments under IFRS. Contracts included in this category are primarily Guaranteed Investment Contracts and similar funding agreements written in Jackson and certain unit-linked and similar contracts written in Asia insurance operations.

New business premiums reflect those premiums attaching to covered business, including premiums for contracts designed as investment products for IFRS reporting and for regular premium products are shown on an annualised basis.

Investment products referred to in the tables for funds under management are unit trusts, mutual funds and similar types of retail fund management arrangements. These are unrelated to insurance products that are classified as investment contracts under IFRS 4, as described in the preceding paragraph, although similar IFRS recognition and measurement principles apply to the acquisition costs and fees attaching to this type of business.

Post-tax new business profit has been determined using the European Embedded Value (EEV) methodology set out in our EEV basis results supplement.

In determining the EEV basis value of new business written in the year when policies incept, premiums are included in projected cash flows on the same basis of distinguishing annual and single premium business as set out for local statutory basis reporting.

Annual premium equivalent (APE) sales are subject to rounding.

* The additional financial information is not covered by the KPMG LLP independent audit opinion.

Notes to Schedules A(i) to A(iv)

- (1) Prudential plc reports its results using both actual exchange rates (AER) and constant exchange rates (CER) to eliminate the impact of exchange translation. Following the change in presentation currency, the rates below are for US dollars against local currency.

\$: local currency	Average rate			Closing rate		
	2019	2018	% appreciation (depreciation) of local currency against USD	31 Dec 2019	31 Dec 2018	% appreciation (depreciation) of local currency against USD
China	6.91	6.61	(4)%	6.97	6.87	(1)%
Hong Kong	7.84	7.84	-	7.79	7.83	1%
Indonesia	14,140.84	14,220.82	1%	13,882.50	14,380.00	4%
Malaysia	4.14	4.03	(3)%	4.09	4.13	1%
Singapore	1.36	1.35	(1)%	1.34	1.36	1%
Thailand	31.05	32.30	4%	29.75	32.56	9%
UK	0.78	0.75	(4)%	0.75	0.79	5%
Vietnam	23,227.64	23,017.17	(1)%	23,172.50	23,195.00	0%

- (2) Annual premium equivalents (APE) are calculated as the aggregate of regular premiums on business written in the year and one-tenth of single premiums. Present value of new business premiums (PVNBP) are calculated as the aggregate of single premiums and the present value of expected future premiums from regular premium new business, allowing for lapses and the other assumptions applied in determining the EEV new business profit.
- (3) New business in China JV is included at Prudential's 50 per cent interest in the joint venture.
- (4) New business in India is included at Prudential's interest in the associate (with effect from 27 March 2019: 22 per cent; 2018: 26 per cent).
- (5) Mandatory Provident Fund (MPF) product flows in Hong Kong are included at Prudential's 36 per cent interest in the Hong Kong MPF business.
- (6) Investment flows for the year exclude Eastspring Money Market Funds (MMF) gross inflow of \$236,603 million (2018: gross inflow of \$255,722 million) and net outflow of \$(1,856) million (2018: net inflow of \$2,003 million). The flows also exclude any amounts managed by M&G plc, which was demerged from the Group in October 2019.
- (7) Balance sheet figures have been calculated at the closing exchange rates.

Schedule A(i) Insurance operations (actual and constant exchange rates)

Note: The 2018 comparative results are shown below on both actual exchange rates (AER) and constant exchange rates (CER), and have been re-presented from those previously published to reflect the change in the Group's presentation currency from pounds sterling to US dollars and the reclassification of the Group's UK and Europe operations as discontinued operations in 2019.

AER	Single premiums			Regular premiums			APE ^{note(2)}			PVNBP ^{note(2)}		
	2019	2018	+/(-) %	2019	2018	+/(-) %	2019	2018	+/(-) %	2019	2018	+/(-) %
	\$m	\$m	%	\$m	\$m	%	\$m	\$m	%	\$m	\$m	%
Continuing operations:												
Asia												
Cambodia	-	-	-	24	26	(8)%	24	26	(8)%	111	119	(7)%
Hong Kong	387	458	(16)%	1,977	2,222	(11)%	2,016	2,266	(11)%	12,815	13,619	(6)%
Indonesia	292	274	7%	361	287	26%	390	315	24%	1,668	1,215	37%
Malaysia	209	112	87%	333	324	3%	355	335	6%	2,090	1,765	18%
Philippines	51	57	(11)%	153	111	38%	158	117	35%	561	395	42%
Singapore	1,217	1,242	(2)%	539	493	9%	660	617	7%	4,711	4,821	(2)%
Thailand	192	290	(34)%	140	127	10%	159	156	2%	763	813	(6)%
Vietnam	22	27	(19)%	215	192	12%	217	195	11%	1,342	946	42%
South-east Asia including Hong Kong	2,370	2,460	(4)%	3,742	3,782	(1)%	3,979	4,027	(1)%	24,061	23,693	2%
China JV ^{note (3)}	710	138	414%	518	390	33%	590	403	46%	2,586	1,753	48%
Taiwan	544	389	40%	278	243	14%	332	282	18%	1,418	1,052	35%
India ^{note (4)}	155	105	48%	245	276	(11)%	260	287	(9)%	1,179	1,213	(3)%
Total Asia	3,779	3,092	22%	4,783	4,691	2%	5,161	4,999	3%	29,244	27,711	6%
US												
Variable annuities	12,692	14,433	(12)%	-	-	-	1,270	1,443	(12)%	12,692	14,434	(12)%
Elite Access (variable annuity)	2,002	2,245	(11)%	-	-	-	200	225	(11)%	2,002	2,244	(11)%
Fixed annuities	1,194	454	163%	-	-	-	119	46	159%	1,194	454	163%
Fixed index annuities	3,821	335	1,041%	-	-	-	382	33	1,058%	3,821	335	1,041%
Wholesale	2,522	3,126	(19)%	-	-	-	252	312	(19)%	2,522	3,126	(19)%
Total US	22,231	20,593	8%	-	-	-	2,223	2,059	8%	22,231	20,593	8%
Group total	26,010	23,685	10%	4,783	4,691	2%	7,384	7,058	5%	51,475	48,304	7%

* In 2019, the Africa business operations sold APE new business of \$82 million (2018: \$51 million on an actual exchange rate basis). Given the relative immaturity of the Africa business, it is incorporated into the Group's EEV basis results on an IFRS basis and is excluded from new business sales and profit metrics.

CER	Single premiums			Regular premiums			APE ^{note(2)}			PVNBP ^{note(2)}		
	2019	2018	+/(-) %	2019	2018	+/(-) %	2019	2018	+/(-) %	2019	2018	+/(-) %
	\$m	\$m	%	\$m	\$m	%	\$m	\$m	%	\$m	\$m	%
Continuing operations:												
Asia												
Cambodia	-	-	-	24	26	(8)%	24	26	(8)%	111	119	(7)%
Hong Kong	387	458	(16)%	1,977	2,221	(11)%	2,016	2,268	(11)%	12,815	13,623	(6)%
Indonesia	292	275	6%	361	289	25%	390	316	23%	1,668	1,222	36%
Malaysia	209	109	92%	333	315	6%	355	326	9%	2,090	1,718	22%
Philippines	51	58	(12)%	153	112	37%	158	118	34%	561	402	40%
Singapore	1,217	1,227	(1)%	539	487	11%	660	609	8%	4,711	4,767	(1)%
Thailand	192	302	(36)%	140	133	5%	159	163	(2)%	763	847	(10)%
Vietnam	22	27	(19)%	215	190	13%	217	193	12%	1,342	936	43%
South-east Asia including Hong Kong	2,370	2,456	(4)%	3,742	3,773	(1)%	3,979	4,019	(1)%	24,061	23,634	2%
China JV ^{note (3)}	710	132	438%	518	373	39%	590	386	53%	2,586	1,676	54%
Taiwan	544	380	43%	278	237	17%	332	275	21%	1,418	1,026	38%
India ^{note (4)}	155	102	52%	245	269	(9)%	260	279	(7)%	1,179	1,176	0%
Total Asia	3,779	3,070	23%	4,783	4,652	3%	5,161	4,959	4%	29,244	27,512	6%
US												
Variable annuities	12,692	14,433	(12)%	-	-	-	1,270	1,443	(12)%	12,692	14,434	(12)%
Elite Access (variable annuity)	2,002	2,245	(11)%	-	-	-	200	225	(11)%	2,002	2,244	(11)%
Fixed annuities	1,194	454	163%	-	-	-	119	46	159%	1,194	454	163%
Fixed index annuities	3,821	335	1,041%	-	-	-	382	33	1,058%	3,821	335	1,041%
Wholesale	2,522	3,126	(19)%	-	-	-	252	312	(19)%	2,522	3,126	(19)%
Total US	22,231	20,593	8%	-	-	-	2,223	2,059	8%	22,231	20,593	8%
Group total	26,010	23,663	10%	4,783	4,652	3%	7,384	7,018	5%	51,475	48,105	7%

* In 2019, the Africa business operations sold APE new business of \$82 million (2018: \$47 million on a constant exchange rate basis). Given the relative immaturity of the Africa business, it is incorporated into the Group's EEV basis results on an IFRS basis and is excluded from new business sales and profit metrics.

Schedule A(ii) Insurance new business APE (actual and constant exchange rates)

Note: Comparative results for the first half (H1) and second half (H2) of 2018 are presented on both actual exchange rates (AER) and constant exchange rates (CER), and have been re-presented from those previously published to reflect the change in the Group's presentation currency from pounds sterling to US dollars and the reclassification of the Group's UK and Europe operations as discontinued operations in 2019. The H2 amounts are presented on year-to-date average exchange rates (including the effect of retranslating H1 results for movements in average exchange rates between H1 and the year to date).

	AER				CER			
	2018 \$m		2019 \$m		2018 \$m		2019 \$m	
	H1	H2	H1	H2	H1	H2	H1	H2
Continuing operations:								
Asia								
Cambodia	11	15	15	9	11	15	14	10
Hong Kong	1,021	1,245	1,075	941	1,021	1,247	1,075	941
Indonesia	155	160	156	234	151	165	157	233
Malaysia	161	174	158	197	153	173	157	198
Philippines	52	65	71	87	53	65	71	87
Singapore	282	335	299	361	275	334	297	363
Thailand	73	83	62	97	74	89	64	95
Vietnam	84	111	88	129	82	111	89	128
South-east Asia including Hong Kong	1,839	2,188	1,924	2,055	1,820	2,199	1,924	2,055
China JV ^{note (3)}	257	146	350	240	237	149	343	247
Taiwan	149	133	149	183	142	133	151	181
India ^{note (4)}	144	143	137	123	133	146	137	123
Total Asia	2,389	2,610	2,560	2,601	2,332	2,627	2,555	2,606
US								
Variable annuities	749	694	628	642	749	694	628	642
Elite Access (variable annuity)	122	103	96	104	122	103	96	104
Fixed annuities	23	23	23	96	23	23	23	96
Fixed index annuities	18	15	120	262	18	15	120	262
Wholesale	211	101	208	44	211	101	208	44
Total US	1,123	936	1,075	1,148	1,123	936	1,075	1,148
Group total	3,512	3,546	3,635	3,749	3,455	3,563	3,630	3,754

Schedule A(iii) Insurance new business profit (actual and constant exchange rates)

Note: Comparative results for 2018 are presented on both actual exchange rates (AER) and constant exchange rates (CER), and have been re-presented from those previously published to reflect the change in the Group's presentation currency from pounds sterling to US dollars and the reclassification of the Group's UK and Europe operations as discontinued operations in 2019.

	AER				CER			
	2018		2019		2018		2019	
	HY	FY	HY	FY	HY	FY	HY	FY
Continuing operations:								
New business profit (\$m)								
Asia	1,544	3,477	1,676	3,522	1,523	3,460	1,675	3,522
US	641	1,230	450	883	641	1,230	450	883
Group total	2,185	4,707	2,126	4,405	2,164	4,690	2,125	4,405
APE (\$m)^{note (2)}								
Asia	2,389	4,999	2,560	5,161	2,332	4,959	2,555	5,161
US	1,123	2,059	1,075	2,223	1,123	2,059	1,075	2,223
Group total	3,512	7,058	3,635	7,384	3,455	7,018	3,630	7,384
New business margin (NBP as a % of APE)								
Asia	65%	70%	65%	68%	65%	70%	65%	68%
US	57%	60%	42%	40%	57%	60%	42%	40%
Group total	62%	67%	58%	60%	63%	67%	58%	60%
PVNB (P) (\$m)^{note (2)}								
Asia	12,565	27,711	14,218	29,244	12,307	27,512	14,195	29,244
US	11,231	20,593	10,752	22,231	11,231	20,593	10,752	22,231
Group total	23,796	48,304	24,970	51,475	23,538	48,105	24,947	51,475
New business margin (NBP as a % of PVNB)								
Asia	12.3%	12.5%	11.8%	12.0%	12.4%	12.6%	11.8%	12.0%
US	5.7%	6.0%	4.2%	4.0%	5.7%	6.0%	4.2%	4.0%
Group total	9.2%	9.7%	8.5%	8.6%	9.2%	9.7%	8.5%	8.6%

Schedule A(iv) Investment operations (actual exchange rates)

Note: The H1 and H2 of 2018 comparative results are shown below on actual exchange rates (AER), and have been re-presented from those previously published to reflect the change in the Group's presentation currency from pounds sterling to US dollars and the reclassification of the Group's UK and Europe operations as discontinued operations in 2019.

	2018 \$m		2019 \$m	
	H1	H2	H1	H2
Eastspring investment operations:				
Third party retail: ^{note (5)}				
Opening FUM	52,321	47,644	55,198	62,441
Net Flows: ^{note (6)}	34	(925)	2,682	3,313
- Gross Inflows	13,921	11,772	19,628	23,005
- Redemptions	(13,887)	(12,697)	(16,946)	(19,692)
Other Movements*	(4,711)	8,479	4,561	7,890
Closing FUM ^{note (7)}	47,644	55,198	62,441	73,644
Third party institutional:				
Opening FUM	10,676	8,297	7,788	9,431
Net Flows: [†]	(1,222)	(5)	1,274	1,640
- Gross Inflows	465	1,275	1,661	2,371
- Redemptions	(1,687)	(1,280)	(387)	(731)
Other Movements [†]	(1,157)	(504)	369	26,670
Closing FUM ^{note (7)}	8,297	7,788	9,431	37,741
Total third party (excluding MMF)	55,941	62,986	71,872	111,385

* Other movements in H2 2018 included an inflow of \$11.2 billion funds under management (excluding MMF) from the acquisition of TMB Asset Management Co., Ltd. ('TMBAM') in Thailand. Other movements in H2 2019 included an inflow of \$7.0 billion funds under management (excluding MMF) from the acquisition of Thanachart Fund Management Co., Ltd. ('TFUND') in Thailand.

† Net flows and other movements in H2 2019 include M&G plc related assets that have been reclassified to third party from internal FUM following the demerger in October 2019.

B Reconciliation of expected transfer of value of in-force business and required capital to free surplus

The tables below show how the value of in-force business (VIF) generated by the in-force long-term business and the associated required capital is modelled as emerging into free surplus over the next 40 years. Although circa 7 per cent of the Group's embedded value emerges after this date, analysis of cash flows emerging in the years shown in the tables is considered most meaningful. The modelled cash flows use the same methodology underpinning the Group's embedded value reporting and so are subject to the same assumptions and sensitivities used to prepare our 2019 results.

In addition to showing the amounts, both discounted and undiscounted, expected to be generated from all in-force business at 31 December 2019, the tables also present the expected future free surplus to be generated from the investment made in new business during 2019 over the same 40-year period for long-term business operations.

Expected period of emergence	31 Dec 2019 \$m					
	Undiscounted expected generation from all in-force business*			Undiscounted expected generation from new business written*		
	Asia	US	Group total	Asia	US	Group total
2020	1,963	1,523	3,486	291	325	616
2021	2,088	1,445	3,533	244	45	289
2022	1,941	1,412	3,353	225	101	326
2023	1,965	1,500	3,465	207	120	327
2024	1,895	1,574	3,469	223	119	342
2025	1,874	1,528	3,402	202	26	228
2026	1,917	1,514	3,431	223	9	232
2027	1,891	1,497	3,388	217	143	360
2028	1,858	1,415	3,273	209	173	382
2029	1,761	1,333	3,094	223	148	371
2030	1,687	1,265	2,952	188	122	310
2031	1,666	1,152	2,818	184	109	293
2032	1,614	1,001	2,615	171	94	265
2033	1,596	759	2,355	169	80	249
2034	1,590	690	2,280	190	87	277
2035	1,556	610	2,166	170	71	241
2036	1,557	514	2,071	170	57	227
2037	1,563	396	1,959	170	46	216
2038	1,550	312	1,862	169	35	204
2039	1,535	243	1,778	177	70	247
2040-2044	7,360	977	8,337	869	140	1,009
2045-2049	7,055	-	7,055	887	-	887
2050-2054	7,073	-	7,073	987	-	987
2055-2059	6,468	-	6,468	958	-	958
Total free surplus expected to emerge in the next 40 years	63,023	22,660	85,683	7,723	2,120	9,843

* The analysis excludes amounts incorporated into VIF at 31 December 2019 where there is no definitive time frame for when the payments will be made or receipts received. It also excludes any free surplus emerging after 2059.

The discounted expected generation from new business written in 2019 can be reconciled to the new business profit for long-term business operations as follows:

	2019 \$m		
	Asia	US	Group total
Undiscounted expected free surplus generation for years 2020 to 2059	7,723	2,120	9,843
Less: discount effect	(4,211)	(721)	(4,932)
Discounted expected free surplus generation for years 2020 to 2059	3,512	1,399	4,911
Discounted expected free surplus generation for years after 2059	771	-	771
Discounted expected free surplus generation from new business written in 2019	4,283	1,399	5,682
Free surplus investment in new business	(619)	(539)	(1,158)
Other items [†]	(142)	23	(119)
EEV new business profit for long-term business operations	3,522	883	4,405

[†] Other items represent the impact of the time value of options and guarantees on new business, foreign exchange effects and other non-modelled items. Foreign exchange effects arise as EEV new business profit amounts are translated at average exchange rates and the expected free surplus generation is translated at closing rates.

The undiscounted expected free surplus generation from all in-force business at 31 December 2019 shown below can be reconciled to the amount that was expected to be generated as at 31 December 2018 as follows:

Group	2019 \$m	2020 \$m	2021 \$m	2022 \$m	2023 \$m	2024 \$m	Other \$m	Total \$m
2018 expected free surplus generation for years 2019 to 2058	4,759	4,823	4,807	4,695	4,608	4,505	72,778	100,975
Demerger of UK and Europe operations	(755)	(776)	(753)	(728)	(707)	(684)	(10,316)	(14,719)
Less: Amounts expected to be realised in the current year	(4,004)	-	-	-	-	-	-	(4,004)
Add: Expected free surplus to be generated in year 2059*	-	-	-	-	-	-	1,205	1,205
Foreign exchange differences	-	26	25	24	25	23	467	590
New business	-	616	289	326	327	342	7,943	9,843
Operating movements	-	(113)	28	(104)	(59)	(90)	(3,700)	(8,207)
Non-operating and other movements**	-	(1,090)	(863)	(860)	(729)	(627)		
2019 expected free surplus generation for years 2020 to 2059	-	3,486	3,533	3,353	3,465	3,469	68,377	85,683
Asia	2019 \$m	2020 \$m	2021 \$m	2022 \$m	2023 \$m	2024 \$m	Other \$m	Total \$m
2018 expected free surplus generation for years 2019 to 2058	1,987	1,915	1,842	1,835	1,831	1,746	49,411	60,567
Less: Amounts expected to be realised in the current year	(1,987)	-	-	-	-	-	-	(1,987)
Add: Expected free surplus to be generated in year 2059*	-	-	-	-	-	-	1,205	1,205
Foreign exchange differences	-	26	25	24	25	23	467	590
New business	-	291	244	225	207	223	6,533	7,723
Operating movements	-	(133)	63	(69)	(12)	(47)	(4,445)	(5,075)
Non-operating and other movements	-	(136)	(86)	(74)	(86)	(50)		
2019 expected free surplus generation for years 2020 to 2059	-	1,963	2,088	1,941	1,965	1,895	53,171	63,023
US	2019 \$m	2020 \$m	2021 \$m	2022 \$m	2023 \$m	2024 \$m	Other \$m	Total \$m
2018 expected free surplus generation for years 2019 to 2058	2,017	2,132	2,212	2,132	2,070	2,075	13,051	25,689
Less: Amounts expected to be realised in the current year	(2,017)	-	-	-	-	-	-	(2,017)
New business	-	325	45	101	120	119	1,410	2,120
Operating movements	-	20	(35)	(35)	(47)	(43)	745	(3,132)
Non-operating and other movements**	-	(954)	(777)	(786)	(643)	(577)		
2019 expected free surplus generation for years 2020 to 2059	-	1,523	1,445	1,412	1,500	1,574	15,206	22,660

* Excluding 2019 new business.

** Including impact of US EEV hedge modelling enhancements as described in note 7 of the EEV financial statements.

At 31 December 2019, the total free surplus expected to be generated from continuing operations over the next five years (2020 to 2024 inclusive), using the same assumptions and methodology as those underpinning our 2019 embedded value reporting, was \$17.3 billion (31 December 2018: \$19.8 billion).

At 31 December 2019, the total free surplus expected to be generated on an undiscounted basis in the next 40 years is \$85.7 billion, \$(0.6) billion lower than the \$86.3 billion expected at the end of 2018 from continuing operations, with the \$2.4 billion increase in Asia being more than offset by the \$(3.0) billion decrease in the US. In Asia the increase from new business of \$7.7 billion, together with favourable foreign exchange gains and operating assumption updates following the annual review of experience, more than offset the effect of generally lower interest rates across the region decreasing projected returns. At 31 December 2019 expected free surplus generation in Asia for the next 40 years is \$63.0 billion (31 December 2018: \$60.6 billion). In the US new business contributed \$2.1 billion to expected free surplus generation. Operating, non-operating and other movements were \$(3.1) billion, principally driven by the impact of lower interest rates and the effect of the NAIC reform, hedge modelling and other related changes described in note 7 of the EEV financial statements. At 31 December 2019 expected free surplus generation in the US for the next 40 years is \$22.7 billion (31 December 2018: \$25.7 billion).

Actual underlying free surplus generated in 2019 from life business in force at the end of 2018, before the impact of US EEV hedge modelling enhancements and restructuring costs, was \$4.7 billion including \$0.6 billion of changes in operating assumptions and experience variances. This compares with the expected 2019 realisation at the end of 2018 of \$4.0 billion.

This can be analysed further as follows:

	2019 \$m		
	Asia	US	Group total
Transfer to free surplus in 2019 before impact of US EEV hedge modelling enhancements	1,914	2,070	3,984
Expected return on free assets	80	61	141
Changes in operating assumptions and experience variances	147	411	558
Underlying free surplus generated from in-force life business before impact of US EEV hedge modelling enhancements and restructuring costs*	2,141	2,542	4,683
2019 free surplus expected to be generated at 31 December 2018	1,987	2,017	4,004

* Underlying free surplus generated from in-force life business before restructuring costs in 2019 in the US was \$1,639 million (Group total \$3,780 million), after reflecting the \$(903) million impact of US EEV hedge modelling enhancements described in note 7 of the EEV financial statements.

The equivalent discounted amounts of the undiscounted expected transfers from in-force business and required capital into free surplus shown previously are as follows:

Expected period of emergence	31 Dec 2019 \$m					
	Discounted expected generation from all in-force business			Discounted expected generation from new business written		
	Asia	US	Group total	Asia	US	Group total
2020	1,890	1,468	3,358	279	320	599
2021	1,910	1,313	3,223	218	42	260
2022	1,674	1,212	2,886	189	92	281
2023	1,608	1,212	2,820	165	102	267
2024	1,479	1,203	2,682	169	100	269
2025	1,397	1,105	2,502	147	22	169
2026	1,363	1,034	2,397	158	7	165
2027	1,281	966	2,247	147	98	245
2028	1,206	865	2,071	134	114	248
2029	1,088	765	1,853	137	90	227
2030	991	690	1,681	109	70	179
2031	938	595	1,533	99	59	158
2032	863	496	1,359	88	48	136
2033	819	345	1,164	82	39	121
2034	783	298	1,081	86	39	125
2035	737	256	993	76	30	106
2036	709	210	919	73	23	96
2037	682	151	833	70	18	88
2038	651	118	769	66	13	79
2039	619	90	709	67	24	91
2040-2044	2,631	302	2,933	292	49	341
2045-2049	2,060	-	2,060	244	-	244
2050-2054	1,730	-	1,730	232	-	232
2055-2059	1,294	-	1,294	185	-	185
Total discounted free surplus expected to emerge in the next 40 years	30,403	14,694	45,097	3,512	1,399	4,911

The discounted expected generation from all in-force business can be reconciled to the total embedded value for long-term business operations as follows:

	31 Dec 2019 \$m
Discounted expected generation from all in-force business for years 2020 to 2059	45,097
Discounted expected generation from all in-force business for years after 2059	3,892
Discounted expected generation from all in-force business at 31 December 2019	48,989
Free surplus of life operations held at 31 December 2019	5,395
Other items*	(205)
Total EEV for long-term business operations	54,179

* Other items represent the impact of the time value of options and guarantees and other non-modelled items.

C Calculation of return on embedded value

Return on embedded value is calculated as the total post-tax EEV profit for the year as a percentage of closing EEV basis shareholders' equity.

	2019					Adjusted Group total (excluding demerger related items*)
	Asia	US	Central operations	Group total	Demerger related items*	
EEV basis profit (loss) for the year from continuing operations, net of tax and non-controlling interests (\$ million)	8,063	(2,025)	(1,886)	4,152	(528)	4,680
Closing EEV basis shareholders' equity (\$ million)	39,235	16,342	(866)	54,711	(528)	55,239
Total return on shareholders' funds (%)	21%	(12%)	n/a	8%	n/a	8%

	2018 [†]	
	Asia	US
EEV basis profit for the year, net of tax and non-controlling interests (\$ million)	4,808	1,052
Closing EEV basis shareholders' equity (\$ million)	32,008	18,709
Total return on shareholders' funds (%)	15%	6%

* Demerger-related items comprise interest on the subordinated debt that was substituted to M&G plc prior to the demerger and one-off costs of the demerger.

[†] Given the significant changes of Group shareholders' funds as a result of the demerger of the UK and Europe operations in October 2019, it is not meaningful to compare the 2019 and 2018 returns on shareholders' funds at a Group level. The 2018 comparatives have therefore excluded the presentation of a Group return on shareholders' funds. Additionally, the 2018 comparatives for Asia and US operations have been re-presented from those previously published to reflect the use of closing rather than opening shareholders' funds to be on a comparable basis with the 2019 calculation.

Operating return on embedded value is calculated as the post-tax EEV operating profit for the year as a percentage of closing EEV basis shareholders' equity.

	2019		2018	
	Asia	US	Asia	US
EEV basis operating profit for the year from continuing operations, net of tax (\$ million)	6,138	1,782	6,070	2,828
Closing EEV basis shareholders' equity (\$ million)	39,235	16,342	32,008	18,709
Operating return on shareholders' funds (%)	16%	11%	19%	15%

D Calculation of EEV shareholders' funds per share

EEV shareholders' funds per share is calculated as closing EEV shareholders' equity divided by the number of issued shares at 31 December 2019 of 2,601 million (31 December 2018: 2,593 million). EEV shareholders' funds per share excluding goodwill attributable to shareholders is calculated in the same manner, except goodwill attributable to shareholders is deducted from closing EEV shareholders' equity. 2018 comparatives have been restated to show amounts attributable to continuing operations on a comparable basis.

	31 Dec 2019			Group total
	Asia	US	Other	
Closing EEV shareholders' equity (\$ million)	39,235	16,342	(866)	54,711
Less: Goodwill attributable to shareholders (\$ million)	(796)	-	(26)	(822)
Closing EEV shareholders' equity excluding goodwill attributable to shareholders (\$ million)	38,439	16,342	(892)	53,889
Shareholders' funds per share (in cents)	1,508¢	628¢	(33)¢	2,103¢
Shareholders' funds per share excluding goodwill attributable to shareholders (in cents)	1,478¢	628¢	(34)¢	2,072¢
	31 Dec 2018			Group total
	Asia	US	Other	
Closing EEV shareholders' equity (\$ million)	32,008	18,709	(4,616)	46,101
Less: Goodwill attributable to shareholders (\$ million)	(634)	-	-	(634)
Closing EEV shareholders' equity excluding goodwill attributable to shareholders (\$ million)	31,374	18,709	(4,616)	45,467
Shareholders' funds per share (in cents)	1,234¢	722¢	(178)¢	1,778¢
Shareholders' funds per share excluding goodwill attributable to shareholders (in cents)	1,209¢	722¢	(178)¢	1,753¢

E Calculation of new business contribution/embedded value

New business contribution/embedded value is calculated as the post-tax EEV new business contribution for the year as a percentage of closing EEV basis shareholders' equity.

	2019		2018	
	Asia	US	Asia	US
New business contribution (\$ million)	3,522	883	3,477	1,230
Closing EEV basis shareholders' equity (\$ million)	39,235	16,342	32,008	18,709
	9%	5%	11%	7%

RISK FACTORS

A number of risk factors affect Prudential's operating results and financial condition and, accordingly, the trading price of its shares. The risk factors mentioned below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. The information given is as of the date of this document, and any forward-looking statements are made subject to the reservations specified under 'Forward-looking statements'.

Prudential's approaches to managing risks are explained in the section of this document headed 'Group Chief Risk and Compliance Officer's Report on the risks facing our business and how these are managed'.

Risks relating to Prudential's financial situation

Prudential's businesses are inherently subject to market fluctuations and general economic conditions

Uncertainty, fluctuations or negative trends in international economic and investment climates could have a material adverse effect on Prudential's business and profitability. Prudential operates in a macroeconomic and global financial market environment that presents significant uncertainties and potential challenges. For example, interest rates in the US and some Asian countries in which Prudential operates remain low relative to historical levels, and the transition to a lower carbon economy may impact on long-term asset valuations.

Global financial markets are subject to uncertainty and volatility created by a variety of factors. These factors include monetary policy in China, the US and other jurisdictions together with their impact on the valuation of all asset classes and effect on interest rates and inflation expectations, concerns over sovereign debt, a general slowing in world growth. Other factors include the increased level of geopolitical risk and policy-related uncertainty (including the broader market impacts resulting from the trade negotiations between the US and China), and socio-political, climate-driven, pandemic events and other outbreaks such as the recent coronavirus. The extent of financial market and economic impact of these factors may be influenced by the actions, including the effectiveness of mitigating measures, of governments, policymakers and the public.

The adverse effects of such factors could be felt principally through the following items:

- Lower interest rates and reduced investment returns arising on the Group's portfolios including impairment of debt securities and loans, which could reduce Prudential's capital and impair its ability to write significant volumes of new business, increase the potential adverse impact of product guarantees included in Jackson's variable annuities and non unit-linked investment products in Asia, and/or have a negative impact on its assets under management and profit.
- A reduction in the financial strength and flexibility of corporate entities which may result in a deterioration of the credit rating profile and valuation of the Group's invested credit portfolio, as well as higher credit defaults and wider credit and liquidity spreads resulting in realised and unrealised credit losses.
- Failure of counterparties who have transactions with Prudential (e.g. banks and reinsurers) to meet commitments that could give rise to a negative impact on Prudential's financial position and on the accessibility or recoverability of amounts due or, for derivative transactions, adequate collateral not being in place.
- Estimates of the value of financial instruments becoming more difficult because in certain illiquid or closed markets, determining the value at which financial instruments can be realised is highly subjective. Processes to ascertain such values require substantial elements of judgement, assumptions and estimates (which may change over time).
- Increased illiquidity, which also adds to uncertainty over the accessibility of financial resources and may reduce capital resources as valuations decline. This could occur where external capital is unavailable at sustainable cost, increased liquid assets are required to be held as collateral under derivative transactions or redemption restrictions

are placed on Prudential's investments in illiquid funds. In addition, significant redemption requests could also be made on Prudential's issued funds and while this may not have a direct impact on the Group's liquidity, it could result in reputational damage to Prudential. The potential impact of increased illiquidity is more uncertain than for other risks such as interest rate or credit risk.

In general, upheavals in the financial markets may affect general levels of economic activity, employment and customer behaviour. As a result, insurers may experience an elevated incidence of claims, lapses, or surrenders of policies, and some policyholders may choose to defer or stop paying insurance premiums. The demand for insurance products may also be adversely affected. In addition, there may be a higher incidence of counterparty failures. If sustained, this environment is likely to have a negative impact on the insurance sector over time and may consequently have a negative impact on Prudential's business and its balance sheet and profitability. For example, this could occur if the recoverable value of intangible assets for bancassurance agreements and deferred acquisition costs are reduced. New challenges related to market fluctuations and general economic conditions may continue to emerge.

For some non-unit-linked investment products, in particular those written in some of the Group's Asia operations, it may not be possible to hold assets which will provide cash flows to match those relating to policyholder liabilities. This is particularly true in those countries where bond markets are not developed and in certain markets where regulated premium and claim values are set with reference to the interest rate environment prevailing at the time of policy issue. This results in a mismatch due to the duration and uncertainty of the liability cash flows and the lack of sufficient assets of a suitable duration. While this residual asset/liability mismatch risk can be managed, it cannot be eliminated. Where interest rates in these markets remain lower than those used to calculate premium and claim values over a sustained period, this could have a material adverse effect on Prudential's reported profit and the solvency of its business units. In addition, part of the profit from the Group's Asia operations is related to bonuses for policyholders declared on with-profits products, which are impacted by the difference between actual investment returns of the with-profits fund (which are broadly based on historical and current rates of return on equity, real estate and fixed income securities) and minimum guarantee rates offered to policyholders. This profit could be lower in particular in a sustained low interest rate environment.

Jackson writes a significant amount of variable annuities that offer capital or income protection guarantees. The value of these guarantees is affected by market factors (such as interest rates, equity values, bond spreads and realised volatility) and policyholder behaviour. Jackson uses a derivative hedging programme to reduce its exposure to market risks arising on these guarantees. There could be market circumstances where the derivatives that Jackson enters into to hedge its market risks may not cover its exposures under the guarantees. The cost of the guarantees that remain unhedged will also affect Prudential's results.

In addition, Jackson hedges the guarantees on its variable annuity book on an economic basis (with consideration of the local regulatory position) and, thus, accepts variability in its accounting results in the short term in order to achieve the appropriate result on these bases. In particular, for Prudential's Group IFRS reporting, the measurement of the Jackson variable annuity guarantees is typically less sensitive to market movements than for the corresponding hedging derivatives, which are held at market value. However, depending on the level of hedging conducted regarding a particular risk type, certain market movements can drive volatility in the economic or local regulatory results that may be less significant under IFRS reporting.

Also, Jackson has a significant spread based business with a significant proportion of its assets invested in fixed-income securities and its results are therefore affected by fluctuations in prevailing interest rates. In particular, fixed annuities and stable value products written by Jackson expose Prudential to the risk that changes in interest rates, which are not fully reflected in the interest rates credited to customers, will reduce spread. The spread is the difference between the rate of return Jackson is able to earn on the assets backing the policyholders' liabilities and the amounts that are credited to policyholders in the form of benefit increases, subject to minimum crediting rates. Declines in spread from these products or other spread businesses that Jackson conducts, and increases in surrender levels arising from interest rate rises, could have a material impact on its businesses or results of operations.

As a holding company, Prudential is dependent upon its subsidiaries to cover operating expenses and dividend payments

The Group's insurance and investment management operations are generally conducted through direct and indirect subsidiaries, which are subject to the risks discussed elsewhere in this 'Risk Factors' section.

As a holding company, Prudential's principal sources of funds are remittances from subsidiaries, shareholder-backed funds, the shareholder transfer from long-term funds and any amounts that may be raised through the issuance of equity, debt and commercial paper.

Certain of Prudential's subsidiaries are subject to applicable insurance, foreign exchange and tax laws, rules and regulations (including in relation to distributable profits) that can limit their ability to make remittances. In some circumstances, including changes to general market conditions, this could limit Prudential's ability to pay dividends to shareholders or to make available funds held in certain subsidiaries to cover operating expenses of other members of the Group.

(Geo)political risks and political uncertainty may adversely impact economic conditions, increase market volatility, cause operational disruption to the Group and impact its strategic plans, which could have adverse effects on Prudential's business and its profitability

The Group is exposed to (geo)political risks and political uncertainty in the markets in which it operates. Recent shifts in the focus of some national governments toward more protectionist or restrictive economic and trade policies, and international trade disputes, could impact on the macroeconomic outlook and the environment for global financial markets. This could take effect, for example, through increased friction in cross-border trade, such as implementation of trade tariffs or the withdrawal from existing trading blocs or agreements, and the exercise of executive powers to restrict overseas trade and/or financial transactions. The degree and nature of regulatory changes and Prudential's competitive position in some geographic markets may also be impacted, for example, through measures favouring local enterprises, such as changes to the maximum level of non-domestic ownership by foreign companies.

(Geo)political risks and political uncertainty may also adversely impact the Group's operations and its operational resilience. Increased (geo)political tensions may increase cross-border cyber activity and therefore increase cyber security risks. (Geo)political tensions may also lead to civil unrest and/or acts of civil disobedience. This includes the unrest in Hong Kong, where mass anti-government demonstrations have given rise to increased disruption throughout the region. Such events could impact operational resilience by disrupting Prudential's systems, operations, new business sales and renewals, distribution channels and services to customers, which may result in a reduction in contributions from business units to the central cash balances and profit of the Group, decreased profitability, financial loss, adverse customer impacts and reputational damage.

Prudential is subject to the risk of potential sovereign debt credit deterioration owing to the amounts of sovereign debt obligations held in its investment portfolio

Investing in sovereign debt creates exposure to the direct or indirect consequences of political, social or economic changes (including changes in governments, heads of state or monarchs) in the countries in which the issuers of such debt are located and to the creditworthiness of the sovereign. Investment in sovereign debt obligations involves risks not present in debt obligations of corporate issuers. In addition, the issuer of the debt or the governmental authorities that control the repayment of the debt may be unable or unwilling to repay principal or pay interest when due in accordance with the terms of such debt, and Prudential may have limited recourse to compel payment in the event of a default. A sovereign debtor's willingness or ability to repay principal and to pay interest in a timely manner may be affected by, among other factors, its cash flow situation, its relations with its central bank, the extent of its foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the sovereign debtor's policy toward local and international lenders, and the political constraints to which the sovereign debtor may be subject.

Moreover, governments may use a variety of techniques, such as intervention by their central banks or imposition of regulatory controls or taxes, to devalue their currencies' exchange rates, or may adopt monetary and other policies (including to manage their debt burdens) that have a similar effect, all of which could adversely impact the value of an investment in sovereign debt even in the absence of a technical default. Periods of economic uncertainty may affect the volatility of market prices of sovereign debt to a greater extent than the volatility inherent in debt obligations of other types of issuers.

In addition, if a sovereign default or other such events described above were to occur as has happened on occasion in the past, other financial institutions may also suffer losses or experience solvency or other concerns, which may result in Prudential facing additional risks relating to investments in such financial institutions that are held in the Group's investment portfolio. There is also risk that public perceptions about the stability and creditworthiness of financial institutions and the financial sector generally might be adversely affected, as might counterparty relationships between financial institutions. If a sovereign were to default on its obligations, or adopt policies that devalued or otherwise altered the currencies in which its obligations were denominated this could have a material adverse effect on Prudential's financial condition and results of operations.

Downgrades in Prudential's financial strength and credit ratings could significantly impact its competitive position and damage its relationships with creditors or trading counterparties

Prudential's financial strength and credit ratings, which are used by the market to measure its ability to meet policyholder obligations, are an important factor affecting public confidence in Prudential's products, and as a result its competitiveness. Downgrades in Prudential's ratings as a result of, for example, decreased profitability, increased costs, increased indebtedness or other concerns could have an adverse effect on its ability to market products, retain current policyholders, and on the Group's financial flexibility. In addition, the interest rates at which Prudential is able to borrow funds are affected by its credit ratings, which are in place to measure the Group's ability to meet its contractual obligations.

Prudential plc's long-term senior debt is rated as A2 by Moody's, A by Standard & Poor's and A- by Fitch.

Prudential plc's short-term debt is rated as P-1 by Moody's, A-1 by Standard & Poor's and F1 by Fitch.

Jackson's financial strength is rated AA- by Standard & Poor's and Fitch, A1 by Moody's and A+ by A.M. Best.

Prudential Assurance Co. Singapore (Pte) Ltd's financial strength is rated AA- by Standard & Poor's.

All ratings above are on a stable outlook and are stated as at the date of this document.

In addition, changes in methodologies and criteria used by rating agencies could result in downgrades that do not reflect changes in the general economic conditions or Prudential's financial condition.

Prudential is subject to the risk of exchange rate fluctuations owing to the geographical diversity of its businesses

Due to the geographical diversity of Prudential's businesses, Prudential is subject to the risk of exchange rate fluctuations. Prudential's operations generally write policies and invest in assets denominated in local currencies. Although this practice limits the effect of exchange rate fluctuations on local operating results, it can lead to fluctuations in Prudential's consolidated financial statements upon the translation of results into the Group's presentation currency. This exposure is not currently separately managed. The Group now presents its consolidated financial statements in US dollars, which is the currency in which a large proportion of the Group's earnings and assets and liabilities are denominated or linked to (such as the Hong Kong dollar, that is pegged to the US dollar). There remains some entities that are not denominated in or linked to the US dollar and transactions which are conducted in non-US dollar currencies. Prudential is subject to the risk of exchange rate fluctuations from the translation of the results of these entities and transactions and the risks from the maintenance of the Hong Kong dollar peg to the US dollar.

Risks relating to Prudential's business activities and industry

The implementation of large scale transformation, including complex strategic initiatives, gives rise to significant execution risks, may affect Prudential's operational capacity, and may adversely impact the Group if these initiatives fail to meet their objectives

As part of the implementation of its business strategies and to maintain market competitiveness, Prudential undertakes large scale transformation across the Group. Many of these change initiatives, which currently focus on digitalisation, outsourcing initiatives and industry and regulatory-driven change, are complex, interconnected and/or of large scale. There may be adverse financial and non-financial (including operational, regulatory, conduct and reputational) implications for the Group if these initiatives are subject to implementation delays, or fail, in whole or in part, to meet their objectives. Additionally, these initiatives inherently give rise to design and execution risks, and may increase existing business risks, such as placing additional strain on the operational capacity, or weakening the control environment, of the Group.

Implementing further initiatives related to significant regulatory changes, such as IFRS 17, and the transition to a legislative framework in Hong Kong for the group-wide supervision of insurance groups (GWS Framework), may amplify these risks. Risks related to the GWS Framework are explained in the 'Regulatory risks' risk factor.

Adverse experience in the operational risks inherent in Prudential's business, and those of its material outsourcing partners, could disrupt its business functions and have a negative impact on its results of operations

Operational risks are present in all of Prudential's businesses, including the risk of direct or indirect loss resulting from inadequate or failed internal and external processes, systems or human error, fraud, the effects of natural or man-made catastrophic events (such as natural disasters, pandemics, cyber-attacks, acts of terrorism, civil unrest and other catastrophes) or from other external events. These risks may also adversely impact Prudential through its partners which provide bancassurance, outsourcing, external technology, data hosting and other services.

Exposure to such events could impact Prudential's operational resilience and ability to perform necessary business functions by disrupting its systems, operations, new business sales and renewals, distribution channels and services to customers, or result in the loss of confidential or proprietary data. Such events, as well as any weaknesses in administration systems (such as those relating to policyholder records) or actuarial reserving processes, may also result in increased expenses, as well as legal and regulatory sanctions, decreased profitability, financial loss, customer conduct risk impacts and damage Prudential's reputation and relationship with its customers and business partners.

The recent social unrest and coronavirus outbreak, and measures to contain it, have slowed economic and social activity in Hong Kong and mainland China, and in the case of the coronavirus is having a broader global economic impact. While these conditions persist, the level of sales activity in affected markets are expected to be adversely impacted through a reduction in travel and agency and bancassurance activity. Extended travel restrictions in particular may also adversely impact product persistency in the Group's Hong Kong business. Disruption to Prudential's operations may also result where Prudential's employees, or those of its service partners, are affected by travel restrictions; office closures and other measures impacting on working practices, such as the imposition of remote working arrangements; quarantine requirements under local laws and/or other psychosocial impacts.

Prudential's business is dependent on processing a large number of transactions for numerous and diverse products. It also employs a large number of complex and interconnected information technology (IT) and finance systems and models, and user developed applications in its processes. The long-term nature of much of the Group's business also means that accurate records have to be maintained securely for significant time periods. Further, Prudential operates in an extensive and evolving legal and regulatory environment (including in relation to tax) which adds to the complexity of the governance and operation of its business processes and controls.

The performance of the Group's core business activities and the uninterrupted availability of services to customers rely significantly on, and require significant investment in, IT infrastructure and security, system development, data governance

and management, compliance and other operational systems, personnel, controls and processes. During times of significant change, the resilience and operational effectiveness of these systems and processes at Prudential and/or its third party providers may be adversely impacted. In particular Prudential and its business partners are making increasing use of emerging technological tools and digital services, or forming strategic partnerships with third parties to provide these capabilities. Automated distribution channels to customers increase the criticality of providing uninterrupted services. A failure to implement appropriate governance and management of the incremental operational risks from emerging technologies may adversely impact on Prudential's reputation and brand, the results of its operations, its ability to attract and retain customers, its ability to deliver on its long-term strategy and therefore its competitiveness and long-term financial success.

Although Prudential's IT, compliance and other operational systems, models and processes incorporate governance and controls designed to manage and mitigate the operational and model risks associated with its activities, there can be no assurance as to the resilience of these systems and processes to disruption or that governance and controls will always be effective. Due to human error, among other reasons, operational and model risk incidents do occur from time to time and no system or process can entirely prevent them, although Prudential has not, to date, identified any such incidents that have had a material impact. Prudential's legacy and other IT systems, data and processes, as with operational systems and processes generally, may also be susceptible to failure or security/data breaches.

In addition, Prudential relies on the performance and operations of a number of bancassurance, outsourcing (including external technology and data hosting), and service partners. These include back office support functions, such as those relating to IT infrastructure, development and support, and customer facing operations and services, such as product distribution and services (including through digital channels) and investment operations. This creates reliance upon the resilient operational performance of these partners, and failure to adequately oversee the partner, or the failure of a partner (or of its IT and operational systems and processes) could result in significant disruption to business operations and customers and may have adverse financial, reputational or conduct risk implications.

Attempts to access or disrupt Prudential's IT systems, and loss or misuse of personal data, could result in loss of trust from Prudential's customers and employees, reputational damage and financial loss

Prudential and its business partners are increasingly exposed to the risk that individuals or groups may attempt to disrupt the availability, confidentiality and integrity of its IT systems, which could result in disruption to key operations, make it difficult to recover critical services, damage assets and compromise the integrity and security of data (both corporate and customer). This could result in loss of trust from Prudential's customers and employees, reputational damage and direct or indirect financial loss. The cyber-security threat continues to evolve globally in sophistication and potential significance. Prudential's increasing profile in its current markets and those in which it is entering, growing customer interest in interacting with their insurance providers and asset managers through the internet and social media, improved brand awareness and the 2016 designation of Prudential as a Global Systematically Important Insurer (G-SII) could also increase the likelihood of Prudential being considered a target by cyber criminals. Further, there have been changes to the threat landscape and the risk from untargeted but sophisticated and automated attacks has increased.

There is an increasing requirement and expectation on Prudential and its business partners, to not only hold customer, shareholder and employee data securely, but use it in a transparent and appropriate way. The risk of not securely handling or misusing data may be increased by the use of emerging technological tools which could increase the volume of data that Prudential collects and processes. Developments in data protection worldwide (such as the implementation of EU General Data Protection Regulation that came into force in 2018 and the California Consumer Protection Act that came into force on 1 January 2020) may also increase the financial and reputational implications for Prudential following a significant breach of its (or its third-party suppliers') IT systems. New and currently unforeseeable regulatory issues may also arise from the increased use of emerging technology, data and digital services. Although Prudential has experienced or has been affected by cyber and data breaches, to date, it has not identified a failure or breach, or an incident of data misuse in relation to its legacy and other IT systems and processes which has had a material impact. However, Prudential has been, and likely will continue to be, subject to potential damage from computer viruses, unauthorised access and cyber-security attacks such as 'denial of service' attacks (which, for example, can cause temporary disruption to websites and IT networks), phishing and disruptive software campaigns.

Prudential is continually enhancing its IT environment to remain secure against emerging threats, together with increasing its ability to detect system compromise and recover should such an incident occur. However, there can be no assurance that such events will not take place which may have material adverse consequential effects on Prudential's business and financial position.

Prudential operates in a number of markets through joint ventures and other arrangements with third parties, involving certain risks that Prudential does not face with respect to its consolidated subsidiaries

Prudential operates, and in certain markets is required by local regulation to operate, through joint ventures and other similar arrangements. For such Group operations, management control is exercised in conjunction with other participants. The level of control exercisable by the Group depends on the terms of the contractual agreements, in particular, those terms providing for the allocation of control among, and continued cooperation between, the participants. In addition, the level of control exercisable by the Group could be subject to changes in the maximum level of non-domestic ownership imposed on foreign companies in certain jurisdictions. Prudential may face financial, reputational and other exposure (including regulatory censure) in the event that any of its partners fails or is unable to meet its obligations under the arrangements, encounters financial difficulty, or fails to comply with local or international regulation and standards such as those pertaining to the prevention of financial crime. In addition, a significant proportion of the Group's product distribution is carried out through arrangements with third parties not controlled by Prudential such as bancassurance and agency arrangements and is therefore dependent upon continuation of these relationships. A temporary or permanent disruption to these distribution arrangements, such as through significant deterioration in the reputation, financial position or other circumstances of the third party or material failure in controls (such as those pertaining to the third-party system failure or the prevention of financial crime) could adversely affect Prudential's results of operations.

Adverse experience relative to the assumptions used in pricing products and reporting business results could significantly affect Prudential's results of operations

In common with other life insurers, the profitability of the Group's businesses depends on a mix of factors including mortality and morbidity levels and trends, policy surrenders and take-up rates on guarantee features of products, investment performance and impairments, unit cost of administration and new business acquisition expenses. The Group's businesses are subject to inflation risk. In particular, the Group's medical insurance businesses in Asia are also exposed to medical inflation risk.

Prudential needs to make assumptions about a number of factors in determining the pricing of its products, for setting reserves, and for reporting its capital levels and the results of its long-term business operations. Assumptions about future expected levels of mortality are of relevance to the Guaranteed Minimum Withdrawal Benefit (GMWB) of Jackson's variable annuity business.

A further factor is the assumption that Prudential makes about future expected levels of the rates of early termination of products by its customers (known as persistency). This is relevant to a number of lines of business in the Group, especially for Jackson's portfolio of variable annuities and, in Asia markets, the health and protection products in Hong Kong, Singapore, Indonesia and Malaysia. Prudential's persistency assumptions reflect a combination of recent past experience for each relevant line of business and expert judgement, especially where a lack of relevant and credible experience data exists. Any expected change in future persistency is also reflected in the assumption. If actual levels of future persistency are significantly different than assumed, the Group's results of operations could be adversely affected. Furthermore, Jackson's variable annuity products are sensitive to other types of policyholder behaviour, such as the take-up of its GMWB product features.

In addition, Prudential's business may be adversely affected by epidemics, pandemics and other effects that give rise to a large number of deaths or additional sickness claims, as well as increases to the cost of medical claims. Pandemics, significant influenza and other epidemics and outbreaks such as the recent coronavirus have occurred a number of times historically but the likelihood, timing, or the severity of future events cannot be predicted. The effectiveness of external

parties, including governmental and non-governmental organisations, in combating the spread and severity of any epidemics could have a material impact on the Group's loss experience.

Prudential's businesses are conducted in highly competitive environments with developing demographic trends and continued profitability depends upon management's ability to respond to these pressures and trends

The markets for financial services in the US and Asia are highly competitive, with several factors affecting Prudential's ability to sell its products and continued profitability, including price and yields offered, financial strength and ratings, range of product lines and product quality, brand strength and name recognition, investment management performance and fund management trends, historical bonus levels, the ability to respond to developing demographic trends, customer appetite for certain savings products and technological advances. In some of its markets, Prudential faces competitors that are larger, have greater financial resources or a greater market share, offer a broader range of products or have higher bonus rates. Further, heightened competition for talented and skilled employees and agents with local experience, particularly in Asia, may limit Prudential's potential to grow its business as quickly as planned. Technological advances may result in increased competition to the Group (including from outside the insurance industry) and a failure to be able to attract sufficient numbers of skilled staff.

In Asia, the Group's principal competitors include global life insurers together with regional insurers and multinational asset managers. In most markets, there are also local companies that have a material market presence. Jackson's competitors in the US include major stock and mutual insurance companies, mutual fund organisations, banks and other financial services companies.

Prudential believes that competition will intensify across all regions in response to consumer demand, digital and other technological advances, the need for economies of scale and the consequential impact of consolidation, regulatory actions and other factors. Prudential's ability to generate an appropriate return depends significantly upon its capacity to anticipate and respond appropriately to these competitive pressures.

Prudential is exposed to ongoing risks as a result of the demerger of M&G plc

On 21 October 2019, Prudential completed the demerger of M&G plc and, in connection with the demerger, Prudential entered into a demerger agreement with M&G plc. Among other provisions, the demerger agreement contains a customary indemnity under which Prudential has agreed to indemnify M&G plc against liabilities incurred by the M&G group that relate to the business of the Group. Although it is not anticipated that Prudential will be required to pay any substantial amount pursuant to such indemnity obligations, if any amount payable thereunder is substantial this could have a material adverse effect on Prudential's financial condition and/or results of operations.

Legal and regulatory risk

Prudential conducts its businesses subject to regulation and associated regulatory risks, including a change to the basis in the regulatory supervision of the Group, the effects of changes in the laws, regulations, policies and interpretations and any accounting standards in the markets in which it operates

Changes in government policy and legislation (including in relation to tax), capital control measures on companies and individuals, regulation or regulatory interpretation applying to companies in the financial services and insurance industries in any of the markets in which Prudential operates (including those related to the conduct of business by Prudential or its third party distributors), or decisions taken by regulators in connection with their supervision of members of the Group, which in some circumstances may be applied retrospectively, may adversely affect Prudential. The impact from any regulatory changes may affect Prudential, for example changes may be required to its product range, distribution channels, handling and usage of data, competitiveness, profitability, capital requirements, risk management approaches, corporate or governance structure and, consequently, reported results and financing requirements. Also, regulators in jurisdictions in which Prudential operates may impose requirements affecting the allocation of capital and liquidity between different business units in the Group, whether on a geographic, legal entity, product line or other basis. Regulators may also change

the level of capital required to be held by individual businesses, the regulation of selling practices, solvency requirements and could introduce changes that impact products sold or that may be sold. Furthermore, as a result of interventions by governments in light of financial and global economic conditions, there may continue to be changes in government regulation and supervision of the financial services industry, including the possibility of higher capital requirements, restrictions on certain types of transactions and enhancement of supervisory powers.

With effect from 21 October 2019, the group-wide supervisor of Prudential plc changed to the Hong Kong Insurance Authority (HKIA). Prior to the introduction of the proposed GWS Framework, the Group is being supervised on an interim basis in line with principles agreed with the HKIA. Until the GWS Framework is finalised the Group cannot be certain of the nature and extent of differences between the interim principles agreed with the HKIA and the specific regulatory requirements of the GWS Framework. With the agreement of the HKIA, Prudential is applying the Local Capital Summation Method (LCSM) to determine Group regulatory capital requirements. Any differences between these interim supervisory requirements and those that will be adopted under the GWS Framework may lead to changes to the way in which capital requirements are calculated and to the eligibility of the capital instruments issued by Prudential to satisfy such capital requirements. The Group's existing processes and resources may also need to change to comply with the final GWS Framework legislation or any other requirements of the HKIA. The need to adapt to any such changes or to respond to any such requirements may lead to increased costs or otherwise impact the business, financial condition, results, profitability and/or prospects of the Group.

While the HKIA has agreed that the subordinated debt instruments Prudential has in issue can be included as part of the Group's capital resources for the purposes of satisfying the capital requirements imposed under the LCSM under the interim principles agreed with the HKIA, the grandfathering provisions under the GWS Framework remain subject to the Hong Kong legislative process. If Prudential is ultimately not able to include the subordinated debt instruments it holds as part of the Group's capital resources for the purposes of satisfying the capital requirements imposed under the GWS Framework it may need to raise additional capital, which may in turn lead to increased costs for the Group.

Currently there are also a number of other global regulatory developments which could impact Prudential's businesses in its many jurisdictions. These include the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and its subsequent amendments in the US which provided for a comprehensive overhaul of the financial services industry within the US including reforms to financial services entities, products and markets, the work of the Financial Stability Board (FSB) in the area of systemic risk including the reassessment of the designation of Global Systemically Important Insurers (G-SIIs), and the Insurance Capital Standard (ICS) being developed by the International Association of Insurance Supervisors (IAIS). In addition, regulators in a number of jurisdictions in which the Group operates are further developing their local capital regimes. Across Asia this includes China, Hong Kong, Singapore, Thailand and India. There remains a high degree of uncertainty over the potential impact of such changes on the Group.

In November 2019 the FSB has endorsed a new Holistic Framework (HF), intended for the assessment and mitigation of systemic risk in the insurance sector, for implementation by the IAIS in 2020 and has suspended G-SII designations until completion of a review to be undertaken in 2022. Many of the previous G-SII measures have already been adopted into the Insurance Core Principles (ICPs) and ComFrame – the common framework for the supervision of Internationally Active Insurance Groups (IAIGs). Prudential is expected to satisfy the criteria to be an IAIG and would therefore be subject to these measures. The HF also includes a monitoring element for the identification of a build-up of systemic risk and to enable supervisors to take action where appropriate. The IAIS has already consulted on an application paper on the liquidity risk elements introduced into the ICPs and ComFrame with a further consultation focused on macroeconomic elements expected to follow in 2021. The IAIS continues to develop the ICS as part of ComFrame. The implementation of ICS will be conducted in two phases – a five-year monitoring phase followed by an implementation phase. ComFrame will more generally establish a set of common principles and standards designed to assist supervisors in addressing risks that arise from insurance groups with operations in multiple jurisdictions. The ComFrame proposals, including ICS, could result in enhanced capital and regulatory measures for IAIGs.

In July 2014, the FSB announced widespread reforms to address the integrity and reliability of inter-bank offer rates (IBORs). The discontinuation of IBORs in their current form and their replacement with alternative risk-free reference rates such as the Sterling Overnight Index Average benchmark (SONIA) in the UK and the Secured Overnight Financing Rate (SOFR) in

the US could, among other things, impact the Group through an adverse effect on the value of Prudential's assets and liabilities which are linked to or which reference IBORs, a reduction in market liquidity during any period of transition and increased legal and conduct risks to the Group arising from changes required to documentation and its related obligations to its stakeholders.

Various jurisdictions in which Prudential operates have created investor compensation schemes that require mandatory contributions from market participants in some instances in the event of a failure of a market participant. As a major participant in the majority of its chosen markets, circumstances could arise in which Prudential, along with other companies, may be required to make such contributions.

The Group's accounts are prepared in accordance with current IFRS applicable to the insurance industry. The International Accounting Standards Board (IASB) introduced a framework that it described as Phase I which, under its standard IFRS 4 permitted insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005. In May 2017, the IASB published its replacement standard on insurance accounting (IFRS 17, 'Insurance Contracts'), which will have the effect of introducing fundamental changes to the statutory reporting of insurance entities that prepare accounts according to IFRS from 2021. In June 2019, the IASB published an exposure draft proposing a number of targeted amendments to this new standard including the deferral of the effective date by one year from 2021 to 2022. As a result of comments on this exposure draft, the IASB plans to redeliberate on a number of areas of IFRS 17, with an amended standard expected to be issued in mid-2020. The EU will apply its usual process for assessing whether the standard meets the necessary criteria for endorsement. The Group is reviewing the complex requirements of this standard and considering its potential impact. The effect of changes required to the Group's accounting policies as a result of implementing the new standard is currently uncertain, but these changes can be expected to, amongst other things, alter the timing of IFRS profit recognition. Given the implementation of this standard is likely to require significant enhancements to IT, actuarial and finance systems of the Group, it will also have an impact on the Group's expenses.

Any changes or modification of IFRS accounting policies may require a change in the way in which future results will be determined and/or a retrospective adjustment of reported results to ensure consistency.

The resolution of several issues affecting the financial services industry could have a negative impact on Prudential's reported results or on its relations with current and potential customers

Prudential is, and in the future may continue to be, subject to legal and regulatory actions in the ordinary course of its business on matters relevant to the delivery of customer outcomes. Such actions relate, and could in the future relate, to the application of current regulations or the failure to implement new regulations (including those relating to the conduct of business), regulatory reviews of broader industry practices and products sold (including in relation to lines of business already closed) in the past under acceptable industry or market practices at the time and changes to the tax regime affecting products. Regulators may also focus on the approach that product providers use to select third-party distributors and to monitor the appropriateness of sales made by them. In some cases, product providers can be held responsible for the deficiencies of third-party distributors.

In the US, there has been significant attention on the different regulatory standards applied to investment advice delivered to retail customers by different sectors of the industry. As a result of reports relating to perceptions of industry abuses, there have been numerous regulatory inquiries and proposals for legislative and regulatory reforms. This includes focus on the suitability of sales of certain products, alternative investments and the widening of the circumstances under which a person or entity providing investment advice with respect to certain employee benefit and pension plans would be considered a fiduciary subjecting the person or entity to certain regulatory requirements. There is a risk that new regulations introduced may have a material adverse effect on the sales of the products by Prudential and increase Prudential's exposure to legal risks.

Litigation, disputes and regulatory investigations may adversely affect Prudential's profitability and financial condition

Prudential is, and may in the future be, subject to legal actions, disputes and regulatory investigations in various contexts, including in the ordinary course of its insurance, investment management and other business operations. These legal actions, disputes and investigations may relate to aspects of Prudential's businesses and operations that are specific to Prudential, or that are common to companies that operate in Prudential's markets. Legal actions and disputes may arise under contracts, regulations (including tax) or from a course of conduct taken by Prudential, and may be class actions. Although Prudential believes that it has adequately provided in all material respects for the costs of litigation and regulatory matters, no assurance can be provided that such provisions are sufficient. Given the large or indeterminate amounts of damages sometimes sought, other sanctions that might be imposed and the inherent unpredictability of litigation and disputes, it is possible that an adverse outcome could have an adverse effect on Prudential's reputation, results of operations or cash flows.

Changes in tax legislation may result in adverse tax consequences

Tax rules, including those relating to the insurance industry, and their interpretation may change, possibly with retrospective effect, in any of the jurisdictions in which Prudential operates. Significant tax disputes with tax authorities, and any change in the tax status of any member of the Group or in taxation legislation or its scope or interpretation could affect Prudential's financial condition and results of operations.

Prudential's Articles of Association contain an exclusive jurisdiction provision

Under Prudential's Articles of Association, certain legal proceedings may only be brought in the courts of England and Wales. This applies to legal proceedings by a shareholder (in its capacity as such) against Prudential and/or its directors and/or its professional service providers. It also applies to legal proceedings between Prudential and its directors and/or Prudential and Prudential's professional service providers that arise in connection with legal proceedings between the shareholder and such professional service providers. This provision could make it difficult for US and other non-UK shareholders to enforce their shareholder rights.

Environmental, social and governance risks

The failure to understand and respond effectively to the risks associated with environmental, social or governance (ESG) factors could adversely affect Prudential's achievement of its long-term strategy

The business environment in which Prudential operates is continually changing. A failure to manage those material risks associated with the ESG themes detailed below may adversely impact on the reputation and brand of the Group, the results of its operations, its ability to attract and retain customers and staff, its ability to deliver on its long-term strategy and therefore its long-term financial success. Ensuring high levels of transparency and responsiveness to stakeholders is a key aspect of this. ESG-related issues may also directly or indirectly impact key stakeholders, ranging from customers to institutional investors, employees, suppliers and regulators, all of whom have expectations in this area, which may differ.

The environmental risks associated with climate change is one ESG area that poses significant risks to Prudential and its customers. These risks include transition risks and physical risks. The global transition to a lower carbon economy could have an adverse impact on investment valuations as the financial assets of carbon-intensive companies re-price and could result in some asset sectors facing significantly higher costs and a disorderly adjustment to their asset values. The speed of this transition will be influenced by factors such as public policy, technology and changes in market or investor sentiment. This may adversely impact the valuation of investments held by the Group. The potential broader economic impact from this may adversely affect customer demand for the Group's products. The physical impacts of climate change, driven by both specific short-term climate-related events such as natural disasters and longer-term changes to the natural environment, will increasingly influence the longevity, mortality and morbidity risk assessments of the Group's underwriting product offerings. Climate-driven changes in countries in which Prudential, or its key third parties, operate could impact on its

operational resilience and could change its claims profile. There is an increasing expectation from stakeholders for Prudential to understand, manage and provide increased transparency of its exposure to climate-related risks. Given that Prudential's investment horizons are long term, it is potentially more exposed to the long-term impact of climate change risks. Additionally, Prudential's stakeholders increasingly expect an approach to responsible investment that demonstrates how ESG considerations are effectively integrated into investment and engagement decisions, and fiduciary and stewardship duties.

Social risks that could impact Prudential may arise from a failure to consider the rights, diversity, well-being, and interests of people and communities in which the Group, or its third parties, operates. These risks are increased as Prudential operates in multiple jurisdictions with distinct local cultures and considerations. Emerging population risks associated with public health trends (such as an increase in obesity) and demographic changes (such as population urbanisation and ageing) may affect customer lifestyles and therefore may impact claims against the Group's insurance product offerings. As a provider of insurance and investment services, Prudential has access to extensive amounts of customer personal data, including data related to personal health, and is therefore exposed to the regulatory and reputational risks associated with customer data misuse or security breaches. These risks are explained in the '*Information security and loss or misuse of data*' risk factor. The potential for reputational risks extends to the Group's supply chains, which may be adversely impacted by factors such as poor labour standards and abuses of human rights by third parties. As an employer, the Group is also exposed to the risk of being unable to attract, retain and develop highly-skilled staff, which can be increased where Prudential does not have responsible working practices.

A failure to maintain high standards of corporate governance may adversely impact the Group and its customers, staff and employees, through poor decision-making and a lack of oversight of its key risks. Poor governance may arise where key governance committees have insufficient independence, a lack of diversity, skills or experience in their members, or unclear (or insufficient) oversight responsibilities and mandates. Inadequate oversight over remuneration increases the risk of poor senior management behaviours. Prudential operates across multiple jurisdictions and has a group and subsidiary governance structure which may add further complexity to these considerations. Participation in joint ventures or partnerships where Prudential does not have direct overall control increases the potential for reputational risks arising from poor governance.

By order of the Board
Prudential plc
Thomas S. Clarkson
Company Secretary

11 March 2020, London

As at the date of this announcement, the Board of Directors of Prudential plc comprises:

Chairman

Paul Victor Falzon Sant Manduca

Executive Directors

Michael Andrew Wells (*Group Chief Executive*), Mark Thomas FitzPatrick CA and Stuart James Turner FCA FCSI FRM

Independent Non-executive Directors

Jeremy David Bruce Anderson CBE, Sir Howard John Davies, David John Alexander Law ACA,
Kaikhushru Shiavax Nargolwala FCA, Anthony John Liddell Nightingale CMG SBS JP,
The Hon. Philip John Remnant CBE FCA, Alice Davey Schroeder, Thomas Ros Watjen,
Jane Fields Wicker-Miurin OBE and Yok Tak Amy Yip

** For identification purposes*